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# H1 2023



# DIGITAL ASSET RECAP

**CONTAGION EFFECTS,  
REGULATION,  
AND PROGRESS**

Unraveling the events that have impacted  
the digital asset industry so far this year



CRYPTO FINANCE

DEUTSCHE BÖRSE  
GROUP

# TABLE OF CONTENTS

- 00. Executive Summary
- 01. January
- 02. February
- 03. March
- 04. April
- 05. May
- 06. June
- 07. July
- 08. Outlook

# EXECUTIVE SUMMARY

The first half of 2023 has been truly eventful for the digital asset industry. At the dawn of the new year, the contagion effects from the collapse of FTX and the overall bearishness of the previous annum were still being felt. Several institutions were forced to enter bankruptcy proceedings, including Genesis, one of the industry's largest institutional lenders, and Silvergate and Signature Bank, the industry's two most friendly US dollar banking partners. Regulating bodies in the United States also took important enforcement actions against many participants, most notably cryptocurrency exchanges. Kraken was forced to halt its staking services, Paxos was ordered to stop issuing the BUSD stablecoin, and the SEC filed complaints against both Binance and Coinbase. For the regulator the issue at hand was that these institutions were offering unregistered securities to the public. The split-decision Ripple ruling also touched upon this topic, as the judge declared that the sales of XRP were in fact sales of securities in some cases, but not in others. Given the toughness of the regulatory landscape in North America, several exchanges, including a branch of Binance, but also Bybit and Bittrex decided to exit the continent. Ordinals, or in rough terms NFTs on the Bitcoin blockchain, were fully embraced by the crypto community, significantly increasing the level of on-chain activity. Ethereum successfully performed its Shanghai update, fully completing the blockchain's transition to a Proof-of-Stake consensus mechanism, by allowing the unstaking of assets. Meme coins, led by PEPE, made a comeback as well. The European Parliament adopted the Markets in Crypto-Assets (MiCA) regulation, which is set to come into application in the second half of 2024. Finally, there was a sudden emergence of spot Bitcoin ETF filings, including a landmark application from Blackrock, the largest asset manager in the world.

# 20 23

## Timeline of Events

### January

#### Post-FTX contagion effects

- Silvergate bank showed signs of weakness
- Genesis filed for bankruptcy
- Sam Bankman-Fried's trial began

### February

#### Regulatory enforcement and Ordinals

- Kraken was forced to stop staking in the US
- Paxos was forced to halt issuing BUSD
- Bitcoin Ordinals gained traction

### March

#### Failure of US banks

- Silvergate, SVB, and Signature collapsed
- Arbitrum's airdrop
- The arrest of Do Kwon

### April

#### ETH Shanghai upgrade and MiCA

- Ethereum's Shanghai upgrade
- The European Parliament adopted MiCA

### May

#### Meme coins and exchange exits

- The PEPE meme coin frenzy
- Exchanges exited the US and Canada
- Ledger's "Recover" service faced backlash

### June

#### SEC vs exchanges and Bitcoin ETF filings

- The SEC filed complaints against Binance and Coinbase
- Altcoins named as securities sold off
- The emergence of spot Bitcoin ETF filings
- The launch of EDX Markets

### July

#### Regulatory ruling and FTX 2.0

- The Ripple ruling
- Worldcoin gained market interest
- FTX set to relaunch

# 01. JANUARY

Entering 2023, the digital asset industry was looking for better new year's resolutions for the months to come. Still, the main events in the industry were related to the collapse of FTX which led to contagion effects across the industry, and the beginning of Sam-Bankman Fried's trial.



[See Crypto Finance's report on Post-FTX contagion effects](#)



## Silvergate bank showed signs of weakness

On the 5th of January 2022, Silvergate, known as one of the most crypto-friendly banks, published preliminary fourth quarter financial metrics.<sup>1</sup> They announced that digital asset customers total deposits had declined from about \$12bn to \$3.8bn during the last few months. To “accommodate sustained lower deposit levels” the bank sold \$5.2bn worth of debt securities, which resulted in an incurred loss of \$718 million.

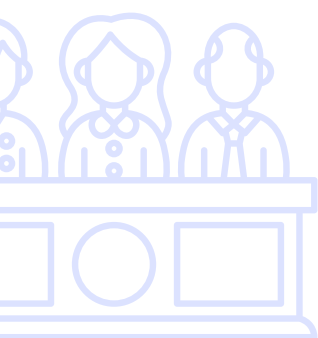
## Genesis filed for bankruptcy

The financial downturn experienced by FTX in late 2022 served as the decisive catalyst for the collapse of Genesis' crypto lending business. Thus, on the 19th of January, the holding company of Genesis Global Capital filed for Chapter 11 bankruptcy protection.<sup>2</sup> Prior to this event, Genesis had encountered substantial losses, reaching several hundred million dollars, stemming from its association with the unsuccessful crypto hedge fund, Three Arrows Capital.



## Sam Bankman-Fried's trial began

Accused of utilizing customers' deposits in a manner that purportedly supported the Alameda Research hedge fund, facilitated real estate acquisitions, and made significant donations to various political causes, Sam Bankman-Fried's trial began in January with him pleading not guilty to fraud and conspiracy charges. The judge set a trial date for October 2023, which is expected to last several weeks.<sup>3</sup>



Sources:  
1 - Silvergate preliminary Q4 2022 financials  
2 - Genesis Chapter 11 bankruptcy  
3 - SBF trial - Coindesk article

# 02. FEBRUARY

In February, the US Securities and Exchange Commission (SEC) brought enforcement actions against players in the digital asset space, which led various industry players to discontinue certain services. In the meantime, activity on the Bitcoin blockchain soared with the emergence of Ordinals.



## Kraken was forced to stop staking in the US

On the 9th of February, Kraken announced that it had reached a settlement with the SEC, leading to the termination of on-chain staking services for US clients, and the payment of a \$30M fine.<sup>1</sup> All other clients' staking services remained unaffected. The SEC stated that Kraken had failed to register "the offer and sale of their crypto asset staking-as-a-service program".<sup>2</sup>

## Paxos was forced to halt issuing BUSD

On the 13th of February, Paxos, a digital asset token issuer regulated by the New York Department of Financial Services (NYDFS) was ordered to stop minting BUSD, a Binance-branded US dollar stablecoin, third largest by market capitalization at the time. It was announced that BUSD would "remain fully supported by Paxos and redeemable to onboarded customers through at least February 2024".<sup>3</sup> The NYDFS declared that their enforcement action was due to several unresolved issues related to Paxos' oversight of its relationship with Binance. The SEC also issued a notice to Paxos regarding the offer and sale of BUSD as an unregistered security.<sup>4</sup>



## Bitcoin Ordinals gained traction

Ordinals, a creation attributed to Bitcoiner Casey Rodarmor,<sup>5</sup> were officially introduced in late 2022, gaining momentum and widespread recognition in February of 2023. Bitcoin Ordinals introduce a method to assign numerical identifiers to satoshis, the individual units of Bitcoin, and also offer the possibility of adding specific data to them, effectively transforming these satoshis into non-fungible tokens (NFTs). The number of Bitcoin Ordinals inscriptions would keep growing in the following months, peaking once in April, and then again in July.<sup>6</sup>



### Sources:

- 1 - Kraken announcement
- 2 - SEC press release on Kraken staking
- 3 - Paxos halts BUSD minting
- 4 - Paxos issues statement on SEC Wells Notice
- 5 - Bitcoin Ordinals and Casey Rodarmor
- 6 - Dune Analytics Ordinals Dashboard

# 03. MARCH

March was marked by the collapse of Silvergate, Silicon Valley Bank and Signature Bank. This had major implications on the industry, as especially Silvergate and Signature were the two most crypto-friendly US institutions which banked almost every participant in the industry. In other news, Arbitrum, Ethereum's leading Layer 2 announced its transition to a Decentralized Autonomous Organization which included a token airdrop, and Do Kwon was arrested in Montenegro.

[See Crypto Finance's report "Have the failures in traditional banking weakened digital assets"](#)

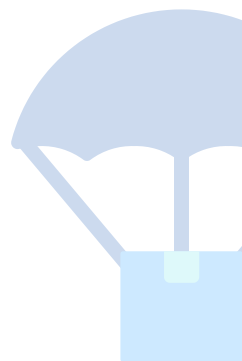


## Silvergate, Signature Bank and SVB collapsed

Silvergate and Signature were notorious for being crypto-friendly institutions, providing most of the digital asset industry's participants with USD bank accounts. SVB, in addition to banking half of US start-ups, also held funds for many digital asset companies, including Circle, issuer of USDC, a \$40B market capitalized stablecoin. Throughout the month of March, depositors' panic would lead to bank runs, and all three institutions would eventually face insolvency, proceed with voluntary liquidation, or be forced by their regulator to close down.<sup>1</sup>

## Arbitrum's airdrop

While conditions in the digital asset industry were deteriorating in regards to banking, Arbitrum, Ethereum's leading layer 2 scaling solution announced that the foundation was transitioning to a Decentralized Autonomous Organization (DAO)<sup>2</sup> and that it would airdrop an Arbitrum token to the members of the community.<sup>2</sup> 42M ARB tokens would be claimed during the first hour, and as of July 2023 around 1.2B ARB (approximately \$1.5B) tokens have been claimed by users who have interacted with various DApps and smart contracts.<sup>3</sup>



## The arrest of Do Kwon

On the 23rd of March, the interior minister of Montenegro announced that Do Kwon, the man behind the collapse of Terra/Luna, was detained at Podgorica airport with falsified documents.<sup>4</sup> Federal prosecutors in the US also filed an indictment charging Do Kwon with fraud.<sup>5</sup> As of July, he still remains in custody in Montenegro, while South Korea's and the US's extradition requests are pending.<sup>6</sup>



Sources:

- 1 - Crypto Finance report
- 2 - Coindesk article on Arbitrum airdrop
- 3 - Dune Analytics Arbitrum airdrop dashboard
- 4 - Tweet from Montenegro's interior minister
- 5 - SEC case against Do Kwon
- 6 - Coindesk article on Do Kwon case

# 04. APRIL

In April, the cryptocurrency landscape witnessed significant developments and regulatory milestones. Ethereum's Shanghai upgrade was a success, finally giving ETH stakers the possibility to unstake their staked assets. Simultaneously, on the regulatory front, the European Parliament took a crucial step towards establishing a framework for the digital asset industry by adopting the Markets in Crypto-Assets (MiCA) regulation.

## Ethereum's Shanghai Upgrade



In September 2022, the Ethereum blockchain successfully completed its "Merge", transitioning from a proof-of-work to a proof-of-stake consensus mechanism, and in April 2023 it successfully implemented the Shanghai upgrade. The primary objective of this implementation was to facilitate the withdrawal of staked ETH for both stakers and validators from the Beacon Chain. Regarded as a momentous milestone by the Ethereum community, the long-awaited upgrade represented the successful culmination of Ethereum's multi-year journey towards transforming into a fully operational proof-of-stake network.

## The European Parliament adopted MiCA

On the 20th of April, the European Union (EU) parliament voted in favor of the Markets in Crypto-Assets (MiCA) regulation, marking a significant milestone in the regulation of the digital asset industry.<sup>1</sup> MiCA is set to come into application in two phases. From June 2024, it will be applicable to stablecoin issuers, while other crypto-asset service providers will be covered under its provisions starting from December 2024. This momentous development represents a crucial step towards establishing a comprehensive regulatory framework for the rapidly evolving crypto-assets market within the EU, promoting investor protection, fostering market integrity, and ensuring compliance across the digital asset sector.



Sources:  
1 - European Parliament news



# 05. MAY

The month of May saw the resurgence of meme coins, led by none other than a "Pepe the frog"-themed token. Elsewhere, exchanges, including Binance, Bittrex and Bybit announced, for various reasons, that they were exiting either the US or Canadian market. Finally, Ledger, known for developing hardware wallets for retail, faced extreme backlash after announcing its "Recover" service.



## The PEPE meme coin frenzy

While most of the cryptocurrency market had not seen much upwards momentum since end of March, a meme coin named \$PEPE was making headlines, after its sudden emergence. Soon it grabbed attention from many investors and the price of \$PEPE exploded. Reminding investors of the 2020-2021 bull market, the meme coin nearly reached a \$1.5B market cap on the 6th of May, before drastically correcting in the days and weeks that followed.<sup>1</sup>

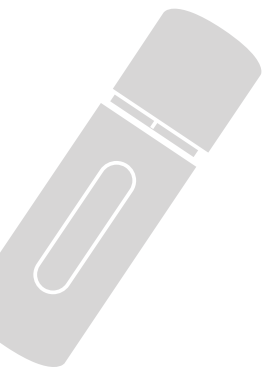
## Exchanges exited the US and Canada

On the 8th of May, Bittrex US filed for Chapter 11 bankruptcy in response to its decision to cease operations in the United States. The SEC had also filed a complaint against the exchange.<sup>2</sup> On the 12th of May, Binance disclosed its decision to discontinue operations in Canada, citing the demanding regulatory landscape as the reason behind the move.<sup>3</sup> Meanwhile, Bybit also issued a notice on the 30th of May announcing that "in light of recent regulatory development", they had made the "difficult but necessary decision to pause the availability of [their] products and services" in Canada.<sup>4</sup>



## Ledger's "Recover" service faced backlash

On the 16th of May, Ledger introduced a new and contentious feature, called Ledger Recovery, aiming to simplify the process of seed phrase recovery.<sup>5</sup> The service would allow users to back up their private seed phrase through three custodians. While Ledger emphasized that this is optional and users can continue to back up their seed phrases independently, concerns persisted among owners about the potential impact on the company's security.




### Sources:

- 1 - CoinMarketCap \$PEPE
- 2 - Bittrex US bankruptcy announcement
- 3 - Binance announcement concerning exiting Canada
- 4 - Bybit notice that they are leaving Canada
- 5 - Ledger announces new "Recover" feature

# 06. JUNE (1/2)

June was certainly the most eventful month of the year for the digital asset industry. First, the SEC filed complaints against the two largest exchanges, Binance and Coinbase, which included the naming of many cryptocurrencies as securities. Then emerged a sudden wave of spot Bitcoin ETF applications, led by Blackrock. And EDX Markets, an institutional digital asset marketplace was launched by Citadel, Fidelity and Charles Schwab.

## The SEC filed a complaint against Binance



On June 5th, the SEC filed a comprehensive complaint against Binance, its associated entities and CEO Changpeng "CZ" Zhao. The allegations pointed to the company's alleged "blatant disregard" for US securities laws, primarily related to the operation of unregistered trading platforms, unregistered securities and investment offerings, and purported fraudulent activities, including wash trading. The complaint echoed some of the Commodity Futures Trading Commission's prior accusations, suggesting that Binance.US served as a facade for the international platform while engaging in alleged market manipulation with inadequate controls.<sup>1</sup> Notably, the lawsuit identified major cryptocurrencies, including BNB, BUSD, SOL, ADA, MATIC, FIL, ATOM, SAND, MANA, ALGO, AXS, and COTI, as securities.<sup>2</sup>

## The SEC filed a complaint against Coinbase

On June 6th, the SEC filed another complaint, this time against Coinbase. The commission accused the company of operating as an unregistered broker, unregistered exchange and unregistered clearing agency, thus offering unregistered securities and investment offerings to US investors. The SEC also pointed out that Coinbase's staking service was also in violation of securities laws, and that they never registered this service with the commission. The lawsuit did not accuse Coinbase of other fraudulent activities, including wash trading, but still identified major cryptocurrencies as securities, including SOL, ADA, MATIC, FIL, SAND, AXS, CHZ, FLOW, ICP, NEAR, VGX, DASH and NEXO.<sup>3</sup>



Sources:  
1 - CFTC vs Binance case  
2 - SEC vs Binance case  
3 - SEC vs Coinbase case

# 06. JUNE (2/2)

## Altcoins named as securities sold off

In the days that followed the complaints of the SEC against Binance and Coinbase, the altcoins that were stated as investment contracts, or in this case securities according to the Howey Test, experienced strong sell-offs, dropping by 20-30% within a week. Popular retail broker Robinhood declared it was delisting all tokens mentioned in the SEC's lawsuit, namely Cardano, Polygon and Solana, which created additional selling pressure.<sup>1</sup>

## The emergence of spot Bitcoin ETF filings

During the month of June, while the industry was facing a wave of regulatory enforcement actions, the sudden emergence of spot Bitcoin ETF filings ignited some newly found enthusiasm within the industry. On the 15th of June, Blackrock, the largest asset manager in the world filed for a Bitcoin ETF with the SEC.<sup>2</sup> The fund, to be called the iShares Bitcoin Trust, would comprise of Bitcoin assets held by a custodian on behalf of the Trust. The designated custodian for the fund would be Coinbase. Following this announcement, many other industry players filed for spot Bitcoin ETFs as well, including, Fidelity, Wisdom Tree, Van Eck, Invesco, and Ark Invest in partnership with 21 Shares. A month later, the SEC would accept these bitcoin ETF proposals for review.

## The launch of EDX Markets

On June 20th, EDX Markets, a digital asset marketplace backed by Citadel, Fidelity and Charles Schwab officially went live. The platform enables trading of Bitcoin, Ethereum, Litecoin, and Bitcoin Cash, and offers a unique, non-custodial set-up designed to mitigate conflicts of interest. The venture also announced a new EDX funding round, welcoming "additional strategic investors to accelerate platform development and market expansion".<sup>3</sup> The news of EDX Markets, coupled with the many spot Bitcoin ETF filings seemed to have been well received by the digital asset industry. The price of Bitcoin rallied, reaching highs it had not experienced since June 2022.

Sources:

1 - Robinhood delists Cardano, Polygon and Solana


2 - Blackrock ETF filing with the SEC

3 - EDX Markets launch announcement

# 07. JULY

During the month of July, the digital asset industry finally received some news from the ongoing SEC vs Ripple case. In a split decision, that could potentially have strong repercussions for the future of the industry, a judge ruled that sales of XRP in some cases did not meet the criteria of an investment contract, i.e. a security, but in some cases (institutional sales) it did, thus violating securities laws. Worldcoin, a project known for scanning users' irises with its "Orbs" gained traction. Finally, FTX's creditors published a plan to make investors whole again and relaunch FTX.com for non US customers.


## The Ripple ruling




During the SEC vs Ripple case, judge Analisa Torres applied the Howey Test for four different types of XRP transactions and gave individual decisions for every single one. The court ruled that XRP did not meet the criteria of a security according to the Howey Test when it was transacted through programmatic sales, other distributions or the founders' sales, but that it did, when transacted through institutional sales. Thus, the ruling was a split decision, offering neither side total satisfaction.<sup>1</sup>

## Worldcoin gained market interest

Backed by Sam Altman, co-founder of OpenAI, Worldcoin's core offering the World ID, is described as a "digital passport" to verify genuine human identity and differentiate from AI bots. To obtain a World ID, customers undergo an in-person iris scan using Worldcoin's 'orb', generating a unique World ID once verified and receiving Worldcoin tokens.<sup>2</sup>



## FTX set to relaunch



On July 31st, FTX debtors filed an initial plan of reorganization and term sheet. \$FTT claims are set to be zeroed and the offshore exchange, FTX.com, is planned to reboot for non US users. Former FTX.com customers will have the possibility to pool assets and create an "offshore exchange company" or a "rebooted" platform not available in the US, potentially receiving non-cash consideration like equity securities or tokens.<sup>3</sup>

Sources:

- 1 - SEC vs Ripple court case and ruling
- 2 - Worldcoin token release
- 3 - FTX plan of reorganization

# Outlook

## 1 Contagion Effects

There is no doubt that the pain experienced in 2022 has overflowed into 2023, resulting in many large participants having to close shop. Many issues are still unresolved, for example the dispute between Gemini and Genesis. Indeed, the Winklevoss brothers' exchange has filed a lawsuit against Digital Currency Group (DCG) and its founder, Barry Silbert, accusing them of fraud.<sup>1</sup> The legal action comes as part of Gemini's efforts to reclaim funds from DCG's subsidiary Genesis, related to its Earn program.<sup>2</sup> This issue is a direct result of contagion effects caused by various events which occurred in 2022.



## 2 Regulation

Regulation, especially in the form of regulatory enforcement actions in the US, was a main theme in the first half of 2023, and there is no reason to believe this should slow down any time soon. The SEC is trying to maintain control over the booming digital asset industry. But, while many players welcome regulatory guidance, the commission has undertaken regulatory enforcement instead. In Europe, the situation seems much different. MiCA introduces a distinct regulatory framework within the EU for crypto enterprises, providing enhanced clarity regarding industry rules. Set to come into application in 2024, MiCA is worth keeping a close eye on. In this regard, Switzerland is considered a first mover with foresight based on the country's strong level of regulatory certainty.



## 3 Progress

While a lot is happening "in the background", public blockchains themselves have not stopped improving. Ethereum completed the Merge in September 2022, and then the Shanghai upgrade in April 2023, and is set to achieve another milestone, the "Dencun" upgrade, by end of year, with five new Ethereum Improvement Proposals (EIPs) coming into effect.<sup>3</sup> The Bitcoin blockchain also experienced the emergence of Ordinals, their own way of minting "NFTs". For many, this showed just how much potential Bitcoin still has, increasing the amount of development and interest from users.



Sources:

- 1 - Gemini vs DCG lawsuit - Coindesk article
- 2 - Crypto Finance "Post-FTX contagion effects" report
- 3 - "Dencun" upgrade presentation - Coindesk article





# About Crypto Finance Group

The Crypto Finance Group - comprising two FINMA-regulated financial institutions and part of Deutsche Börse Group - offers professional digital asset solutions. This includes one of the first FINMA-approved securities firms with 24/7 brokerage services, custody, infrastructure, and tokenisation solutions for financial institutions, as well as the first FINMA-approved manager of collective assets for crypto assets, with an active, rules-based and index-based alternative investment fund offering, including the first Swiss crypto fund. The Crypto Finance Group is headquartered in Zurich, Switzerland and has a regional presence in Frankfurt, Germany.

For more information, please visit: [www.crypto-finance.com](http://www.crypto-finance.com)

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## Author



**William Ery**  
Partnerships Manager



## Reviewed by



**Jakob Pedersen**  
Head of Partnerships



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