

September 2023: Banks Make Steady Progress Integrating Crypto: Citigroup, J.P.Morgan, Visa Powering Internal Settlements

Monthly Insights

October 5, 2023

- In September, major traditional finance players Citigroup and J.P.Morgan announced new products for institutional clients using their enterprise blockchains.
- Ethereum's network revenue surpassed \$10Bn in six years, outpacing Meta and Microsoft by nearly half the time. If adoption continues, Ethereum's network revenue will skyrocket.
- Meanwhile, NFT-related patent applications from the last four years reveal ongoing innovation activity by major consumer brands.
- Meta demonstrated stunning capabilities of its AR and VR technologies (Metaverse), which, combined with Web3 and AI, create enormous opportunities for a broad range of use cases, like consumer brands, social media, and many others.

KEY THEMES

Banks Make Steady Progress Integrating Crypto

A Citigroup New Product For Cross-Border Payments Using Its Own Enterprise Blockchain

- Citigroup launches Citi Token Services, offering its institutional clients cross-border payments and trade finance solutions. Citi Token Services will transform customers' deposits into digital tokens that can be sent instantly anywhere in the world.
- Citigroup has already tested the new service with A.P. Moller-Maersk A/S, one of the world's largest ocean-cargo companies.
- Citigroup will use its own private/permissioned blockchain, so its clients will not be required to host a blockchain node to access the services. Citigroup's crypto history dates back to 2017 when it became a founding member of the Enterprise Ethereum Alliance.

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J.P.Morgan Is Exploring Blockchain-Based Deposit Token for Payments And Settlements

- J.P.Morgan is in the early stages of exploring a blockchain-based digital deposit token for speeding up cross-border payments and settlement.
- The bank has developed several applications using blockchain and runs a system called JPM Coin, which was announced in 2019 and allows clients to move dollars within the financial institution. The bank said in June that it had used the system to process about \$300 billion of transactions since its launch.

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- **TenSquared Capital View:** While crypto markets remain volatile, enterprise blockchain adoption is continuing to grow as businesses find new use cases for the technology. Blockchain technology has yet to play a prominent role in most enterprises by raising standards for efficiency, trust, and integrity of data. **In a March 2023 report, Citigroup forecast that tokenization of digital securities would be a \$4 trillion-\$5 trillion market by 2030.**

KEY THEMES

Visa Expands Stablecoin Settlement Capabilities to Merchant Acquirers

- Visa announced settling merchant payments using the USDC stablecoin on the Solana blockchain in collaboration with merchant acquirers Worldpay and Nuvei.
- Visa had previously relied on USDC issued on the Ethereum network, and now they have expanded their capabilities to USDC issued on Solana. The Solana blockchain delivers high-speed and low-cost transactions all on a single chain.
- **TenSquared Capital View:** *To solve for blockchain technology's broader adoption in payments, it should improve the availability of transactions for users. Rollups, app chains, sharding, side chains, and faster L-1 blockchains like Solana and the Lightning Network offer innovations to make crypto faster and more cost-efficient for payments.*

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Crypto Exchange Kraken Will Offer Trading in US-Listed Stocks

- Kraken, the second largest U.S.-based crypto exchange, announced plans to offer trading in stocks and ETFs in the U.S. and the U.K. by 2024; it will be its first venture outside crypto.
- As crypto trading volumes have declined recently, many crypto exchanges started looking for new business models and diversification strategies.
- **TenSquared Capital View:** *Kraken's strategy demonstrates one example of converging traditional and decentralized finance. While several traditional fintech platforms now offer access to trading in crypto tokens, Kraken will be the second, after FTX's U.S. arm, among crypto exchanges to provide stock trading to its users.*

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Honda Partners With Animoca Brands To Launch F1 NFTs

- Honda launched KEY NFTs in the run-up to the Formula 1 Japanese Grand Prix. The digital collectibles are expected to unlock access to perks at future events.
- Animoca also offers its Gryfyn wallet, a custodial solution for users to keep the Honda KEY NFT safe. Additionally, GET Protocol, a web3 ticketing provider, assisted Honda with the launch of a commemorative NFT.
- **TenSquared Capital View:** *The partnership of Honda and Animoca Brands is one more example of how NFTs can be used in sport to boost fan engagement. The fan engagement program will enhance motorsport experiences for Honda fans by offering exclusive digital and physical prizes.*

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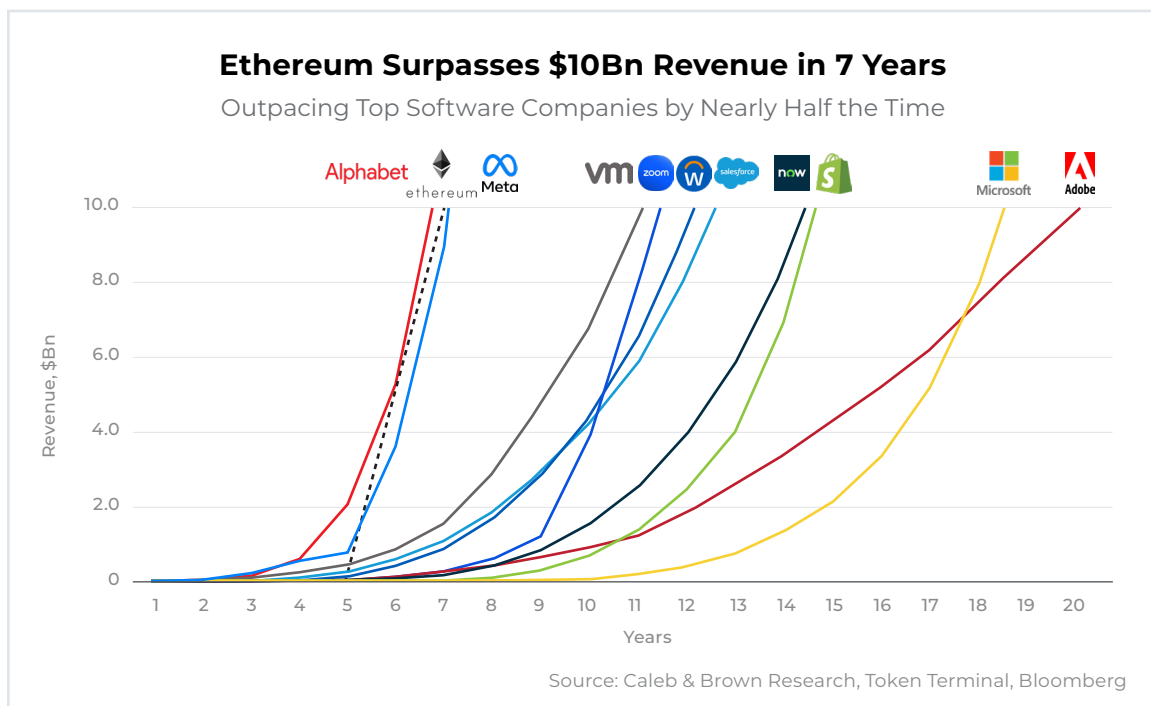
Mark Zuckerberg and Lex Fridman: First Interview in the Metaverse

- Marc Zuckerberg and Lex Fridman talked in the Metaverse virtually. They discussed the future of Meta's AR and VR capabilities and used 3D-scanned avatars almost indistinguishable from their real faces.
- This interview was an impressive technology showcase of future AR and VR experiences.
- **TenSquared Capital View:** *Although this experience was not blockchain-based, it supports the hypothesis that technologies of Web3 (blockchain), Metaverse (AR/VR), and advanced computing (AI) are converging, and that will create incredible opportunities for social media, games, brands, and entertainment.*

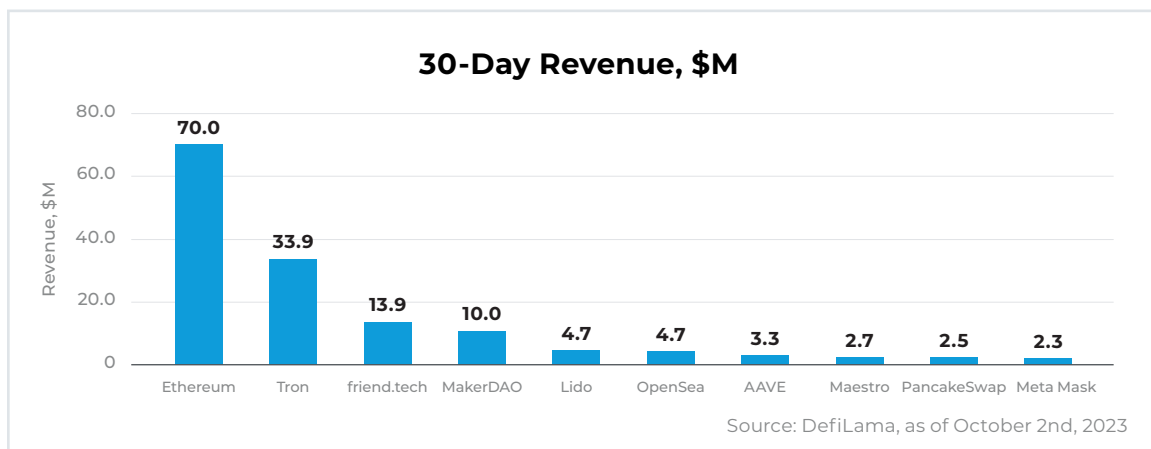
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ETHEREUM REVENUE SURPASSES \$10BN, OUTPACING TOP SOFTWARE COMPANIES

- Ethereum has reached a revenue milestone of \$10Bn since its launch in 2015. It took Ethereum approximately six years to achieve this revenue, compared to Meta's 7.5 years and Microsoft's 19 years, according to Caleb & Brown.
- Ethereum generates revenue from various sources, including transaction fees, decentralized finance apps, NFT trading, and cryptocurrency transfers. Since 2015, Ethereum has generated approx. \$17Bn in fees, with over 60% of this converting into revenue.
- Ethereum's revenue for this year stands at \$1.7Bn (according to Token Terminal), which is 77% lower than Ethereum's revenue from the previous year, which reflects the broader downturn in the crypto market. However, if adoption continues, Ethereum's network revenue could skyrocket to \$51Bn annually by 2030, according to VanEck.

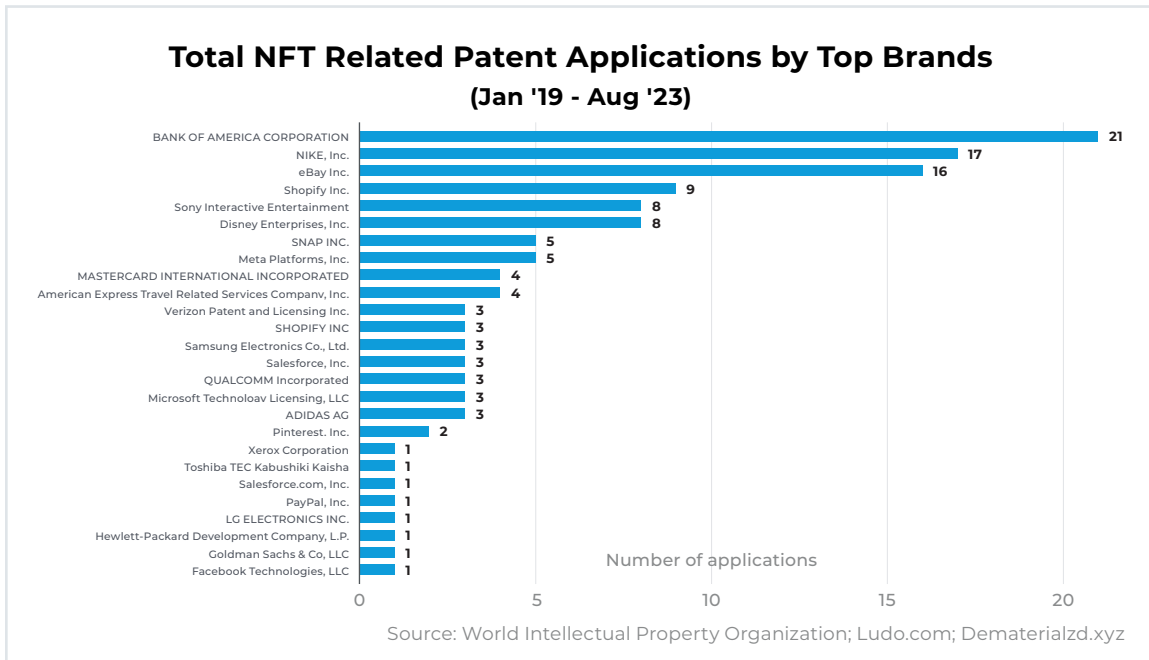


- Other protocols and apps are seeing meaningful revenue traction as well:

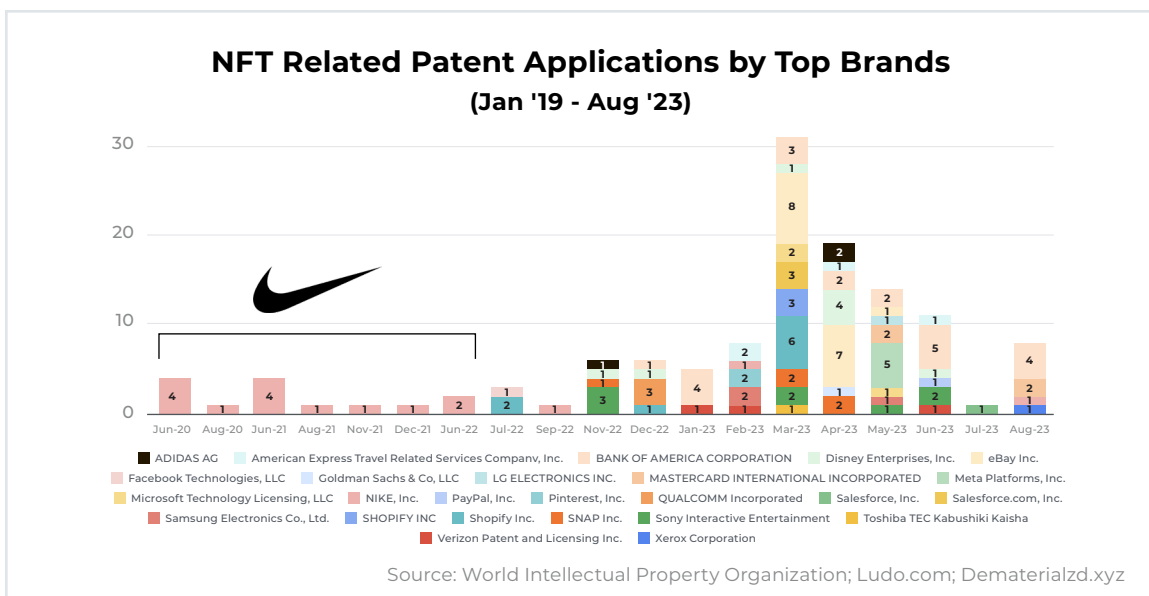


WEB3 STRATEGY IS A MAJOR FOCUS FOR CONSUMER BRANDS

- A study of 1500+ NFT-related patent applications from the last four years reveals an ongoing innovation activity by major companies in diverse industries like finance, gaming, media, and consumer goods (according to Dematerialzd.xyz).
- Major brands are looking for NFT applications in various loyalty programs, brand engagement, and gaming use cases. Bank of America, Nike, eBay, Shopify, Sony, Disney, Snap, and Meta are among the most active companies in NFT patent applications.
- Interestingly, some brands that filed NFT patents have not publicly announced any Web3-related projects.

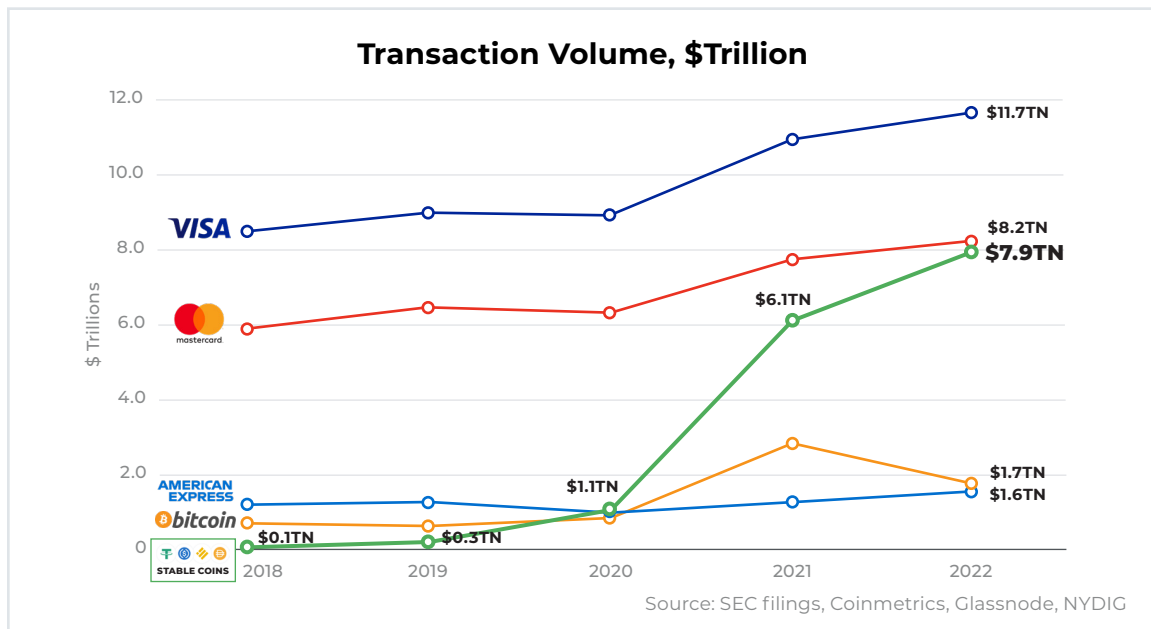


- Nike was one of the earliest major brands to enter the NFT space, having started its first patent applications in 2019. Nike continues to be the trendsetter for consumer brands entering Web3 and trying to redefine their consumer relationships.

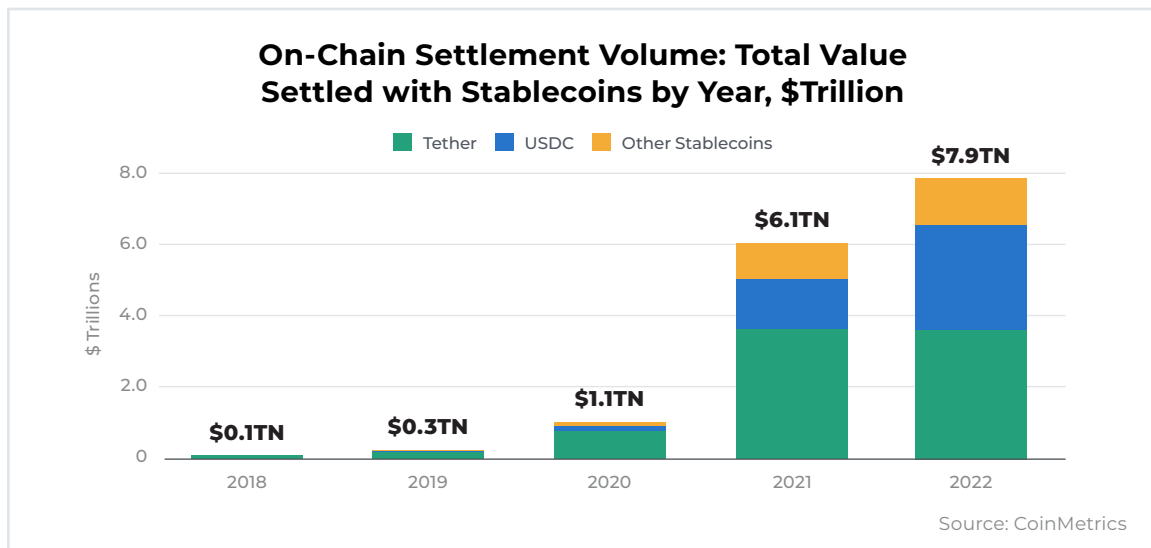


STABLECOIN VOLUMES APPROACH THOSE OF MAJOR PAYMENT NETWORKS

- Stablecoins have emerged as one of the most important applications of blockchain technology. Their total value currently stands at a staggering \$134Bn, with the majority being in the form of off-chain reserve-style assets like Tether (USDT) and USDC.
- Stablecoins have become so widely adopted that their combined transactional volume is now approaching that of Mastercard, the second largest card network.
- In the last four years, the average annual growth rate of stablecoin transactional volume reached almost 200% compared to 8% for Visa and Mastercard and 24% for Bitcoin.
- This comparison nicely illustrates the massive scale of stablecoin adoption; however, it's important to note that the volumes of credit card networks primarily consist of payments, while stablecoins and Bitcoin are used for a broad range of financial use cases, including trading, lending, payments, and many others.



Notes: Stablecoins - transaction transfer value (USD), Coinmetrics, USDT, USDC, BUSD, TUSD, DAI, GUSD, HUSD, PAX
Bitcoin - entity adjusted transfer volume (USD), Glassnode



TOKEN 2049 CONFERENCE: CAUTIOUS OPTIMISM



- The 10SQ team spent a week in Singapore attending the Token 2049 conference and left feeling energized about the growing opportunities in the blockchain and digital asset sector.
- We were reminded about the global nature of the Web3 ecosystem as we networked with founders and investors working to advance the adoption of blockchain technology.
- Both in Singapore and across other Asian financial centers, regulators were putting in appropriate frameworks to allow companies to build in a compliant manner. These countries lead by example and create a business environment where new financial technology can flourish.
- Key areas of focus for founders included Real World Asset Tokenization, Next-Gen Blockchain Gaming, and Wallet Infrastructure. These three trends can potentially become the "killer app" for blockchain technology.
- The mood was subdued as many companies were candid about working through challenges, rightsizing teams, and thinking about the right time to seek additional financing.
- One positive surprise was the excitement around the TON ecosystem, which has been relatively under the radar - with multiple announcements and an "Investor Day."
- Big exchanges continued to dominate floor space and are strategically active and looking for opportunities - OKX was particularly notable for its sizeable presence and mindshare. Huobi hosted a number of high-profile events and effectively rebranded to HTX.
- Great to see so many partners, portfolio companies, and prospective investments all in one place - this continues to be a must-attend event in the region.



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