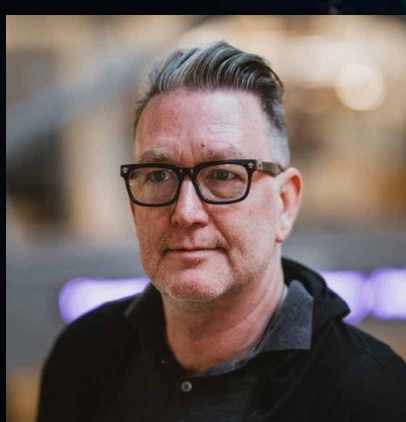
diffusetap
Virtual Event Series

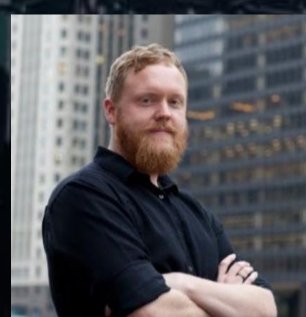
Real Revenue in Digital Assets

Guest Speaker



Richard Titus
Founder
Andronik

Hosts



Kenny Estes
CEO and Founder
Diffuse

Ayla Kremb
Chief of Staff
Diffuse

DiffuseTap: Real Revenue in Digital Assets

Last time on DiffuseTap, Richard Titus, Board Representative at DIEM, talked to us about new exciting opportunities in the digital assets space such as lending, staking pools, and tokenizing physical assets, the potential of crypto to become the national currency for developing countries, and how recent legislation weighs down on the innovation landscape in America.

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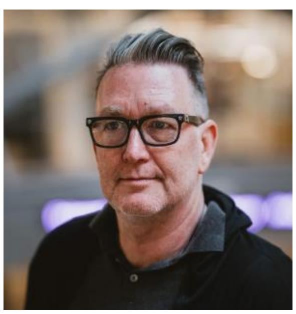
DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) … straight from your armchair like a boss.

Meet the Speaker



RICHARD D. TITUS is a tech-native executive with a talent for infusing teams with diverse and bold viewpoints to spark innovation and disruption. An early believer of blockchain and DeFi, Titus is currently a fellow at Creative Destruction Lab and serves as their board representative on the DIEM Association Council. He is also the Founder of Andronik and a Director at AIKON. Early on, Titus co-founded two of the world's largest digital design agencies, Razorfish (bought by Publicis Sapient) and Schematic (bought by WPP Digital). LinkedIn: @rxdxt Twitter: @richardtitus

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KENNY ESTES: Hi, Richard. Do you want to give a brief introduction of yourself?

RICHARD TITUS: Yeah, so I'm Richard Titus. But everyone calls me Titus. I'm a serial entrepreneur, troublemaker, and was given the mighty original nickname "the Bitcoin bear" by Michael Terpin and Brock Pierce in the early days. I read Satoshi's white paper very early. I was a cypherpunk and a hacker growing up, and I was very intrigued by the use of this encryption scheme, but skeptical it would become digital money.

I was in this small group at the time, and I told them about this new technology. They said that it will never work, but that's cool. At one point I had a laptop mining Bitcoin to pay my hosting bill when I lived in the U.K. I probably spent, at today's prices, probably $20 or so million on a $29 per month bill. But I always found it very fascinating.

About five years ago, I got really serious about it. It became apparent to me that we had hit that tipping point where BTC wasn't going away. Just the other day, I said it doesn't really matter whether you believe that Bitcoin is digital gold or not. The market has spoken and has decided for it. So, for the period of time that it accepts it, it is absolutely a store of value, and frankly a better store of value than the one we previously used, which was gold.

Three years ago, I started a firm called Ark, which did crypto advisory and had a small investment fund. We shut it down last year because my partner wanted to move towards investment banking, and I've been very focused on two of the board positions I hold. I'm CDL's representative on the association board of Diem, which used to be called Libra. It was originally started by Facebook, but now it has spun out. It's a stablecoin project. I can't talk too much about that, because we're deep in a regulatory process right now.

I'm also on the board of AIKON, who are one of the leaders of enterprise software products, particularly a multi-Chain, multisig wallet. And frankly, it's been getting so much traction that we probably need to hire more engineers. I also have a small investment fund of my own capital, and I'm always looking for new things to do.

KENNY: That's great, thanks so much. Appreciate the introduction there. Ayla, do you want to kick us off with questions?

AYLA KREMB: Yeah, happy to. So, we talk a lot about these assets and the store value in Bitcoin, etc. But there's a whole new breed of revenue generating opportunities in the digital assets space, such as trading, staking pools, etc. We'd love to dig into that. What are your thoughts on some of the more interesting revenue generating opportunities in digital assets today?

TITUS: Before we go into that, I think what's funny about DeFi is that most people don't know where this came from. A friend of mine, Bill Barrett, who founded Abra, few people know he's actually a cypherpunk like me, but he was the individual responsible for putting encryption in the Netscape browser back in the day. The reason this is important is, he built a wallet using basically synthetic contracts, or smart contracts, to allow you to own multiple currencies without actually selling your currency. He did this as an experiment, and then he built a wall around it called Abra, which became really successful.

And then, some other early people like SALT and Celsius began realizing that you could use these same smart contracts and layered smart contracts, to pay people interest, and to facilitate really, really fast borrowing and lending. That was sort of the genesis of DeFi, and it's now gone so much farther.

One of the things I think that's really interesting now about the space is that it's growing faster than our ability as humans to understand and measure risk. I think one of the biggest challenges for us today is actually the risk side. So, I wanted to talk a bit about risk before we go into the bigger ways of making money.

As we all saw on the news, in the last week, the biggest crypto heist in history — which, I'm not going to call a hack because it wasn't a hack — with $611 million stolen off Poly. Most of it has been frozen, so it's not actually a very successful act in terms of measuring criminal activity. But coming back to the ways of making money, I think what has happened is people have begun, in the way that software does, to iteratively innovate on top of those original notes on the smart contract, a sort of blockchain and decentralization, and governance. And I'm astonished at how fast and how prolific that evolution has become.

KENNY: That is really fascinating. What are some of the areas that you're seeing right now that are the most interesting? You're saying that they're iterating faster than humans can possibly keep up with, so what are some of the things that just popped up?

TITUS: There are a couple of interesting things lately. There's an interesting forking happening between enterprise products. There's a lot of institutional money moving into the space now, and we need different products. Like Maple - and I mentioned AIKON, whose board I'm on, who is doing multisig wallet..

There's lots of tools you need when you're moving large amounts of capital through DeFi, particularly because any action can cause a market change, and there's issues around that. There's also issues around borrowing and lending and having a certain degree of unpredictability in that space.

Another thing that's really interesting is a project called Railgun. I don't know if any of you have ever heard of that, so I'm using this as an example. There's a whole bunch of tools to obfuscate your wallet. Now, some people think of these things like mixers or Railgun as tools for piracy, theft, or hiding theft. But actually, they're just as good as defensive weapons against people trying to steal your crypto, or people trying to target your wallet for an SMS hack or some other vector of attack.

The third thing I'm seeing which I'm fascinated by is the rise of not just staking pools, but firms like BlockDaemon, which operates nodes as a service - they actually run more nodes than anyone else. Which is fascinating as you can start an Ethereum staking pool for very little, maybe 17eth. In many ways, the infrastructure has not kept pace with the tools, software, and the amount of revenue flowing around these contracts.

AYLA: That brings us to a really important question that I was asked just now in the chat. Because of all that delicious revenue that's coming up, do you think the government would love to have a slice?

TITUS: Ah, the tax thing. I spent time last week on the phone with various members of our elected representation and I have some political connections that grew over the last couple of years, on both sides. And I think that there was a poorly thought through bill that was written, sponsored by Mrs. Warren.

When that got to the floor, it became very apparent that it had been poorly thought through. As was the proposed amendments (one worse than the other) and I think a backroom deal was struck, and a senator from Alabama killed the debate. However, there's a committee in the house which has been working on a far more interesting bill (H.R.6154 - Crypto-Currency Act of 2020), which does a better job at defining things. I think you'll see reconciliation between those two efforts, as well as the removal of a big chunk of the crypto provisions (from the infrastructure bill) when the house approves the bill and when it finally passes.

But much more interesting to me was this idea that the world is bifurcated into proof of stake and proof of work, and that's all that is ever going to happen. But I remember a time, only a few years ago, when there was no proof of Stake. It's pretty obvious to me that this is just the first of the many, many steps of evolution and matriculation in our space. I think it's really important for us to embrace and extend the innovation opportunities for all protocols. I think there's probably room for five or six different kinds of protocols, and just the first two are proof of stake and proof of work.

The other thing to mention is taxation. The bigger issue here is that the funding behind all this effort is really coming from entrenched players who are at risk of being put out of work. When I started looking at DeFi a couple years ago, and when I started with SALT and Celsius as a very early and small investor, before both of those firms did very well, I started asking questions about the risks around pricing in the crypto space. That forced me to learn a lot about the derivatives and synthetic finance markets of traditional markets.

I encourage you all to do that because I think you'll find that risk is better priced in the digital crypto markets than it is in Wall Street, and particularly among hedge funds and really high frequency trading. I know Kenny's going to squeal about that but go ahead. The thing is the market resets constantly 24/7 in crypto. That's not necessarily the case in traditional capital markets. There are inefficiencies there.

More importantly, because of the transparency, for the most part there's a much greater push towards efficiency in crypto. Now, that's not to say there is no criminal activity. It's not to say there are no imbalances in pricing. But the mean is faster achieved in digital markets. This is a hypothesis and I'm not 1,000% convinced, but I'm 80% committed that in traditional capital markets, in many ways the system is incentivized to not be as efficient as it could be.

KENNY: Interesting. Yeah, I always believed that information asymmetry is where most inefficiencies in markets come out of. Potentially, some of these cryptography solutions will solve some of these problems. But while we're talking about the intersection between old and new finance, Chris had a question about tokenization of real-world assets, such as real estate, which is the most popular.

TITUS: Well, before we do that, I just want to say that I have a phrase that I used to describe all of this, which is “new capital markets”. Because I do think, first off, that anyone who says this is all securities is wrong. Anyone who says this is all derivatives or commodities is wrong. It's a new kind of capital market, and I think it's important for us to begin thinking about this, both from a legislation standpoint but also as an industry.

We need to separate ourselves from other legacy systems and call ourselves something new. The internet, if it had just called itself commerce web would have been regulated and taxed much earlier. It wouldn't have been allowed to evolve and become such an interesting, amazing place for innovation and entrepreneurship.

Back to the point around the tokenization of assets, art, capital, real estate, I was one of the people behind the project called 22X three years ago. If you don't know what 22x was, it took all the companies in that year's cohort at 500 startups, and Ashwini and the team took a fixed equity slice across all of the firms at a fixed $10 million valuation. They then syndicated that as a security token It was way too early and hasn't been crazy successful - but groundbreaking

Many of the things they were doing were so ground-breaking, there weren’t solutions yet to make it work. So, 22x ended up working with a guy named Carlos (Domingo) and a small company Securitize (in their infancy then). At the time, it was very unclear that Securitize would be around for the 10 year fund cycle - but they are now one of the leaders in the security token sector.

What was fascinating about this is that it made you realize how all these illiquid assets — and by illiquid assets, I mean all those things that are very hard to get a piece of unless you have large bags of money — make the markets inefficient, non-transparent, and less effective.

And it's hard to borrow against them. There are good reasons why those assets are hard to get a hold of, but they’re basically just value locked up. So, the idea of digitizing these and allowing them to be tokenized, fractionalized, used, and hypothecated. And thinking about all the things that you could do with them was amazingly inspiring.

However, I always go back to the first principle of risk. We don't really understand the risk yet. We don't really have good ways of guaranteeing that that asset is actually tied to the digital asset. You still fall back on traditional old-world contracts and legal systems. And in many ways, all this digital stuff confuses people about the actual risk of the ties between the digital contract and the physical thing. I'm very convinced that this is the future, but I'm not convinced that we’re where we need to be at that level of security in today’s protocols.

AYLA: One of the things that keeps people out of the market in general, from all levels, is the fiat on-ramp problem. Do you have any thoughts on how to address the fiat on-ramp problem globally? And would it be possible for you to compare it on a global scale by geography? Who's faster or slower? And what are some institutions that you see helping more individuals engage with the digital asset market?

TITUS: Well, it's funny. I'm a senior advisor and a board member at the Creative Destruction Lab. It's one of the biggest startup programs in the world. And when we joined Libra (now Diem), or the Libra foundation as it was called then, I took a lot of heat from my peers, both in the crypto world but also in Silicon Valley. They went, “what are you doing? Facebook's the devil. “Sell-out!”

And I said “Listen, the only way we can achieve universal wellbeing is by creating entrepreneurial access to markets and customers globally.” And one of the biggest blockers outside of the Western world is this ability to have your money to carry value both inside and outside your geographic walls. The other thing about it is that all of the traditional financial instruments small businesses use in America don't really exist in places like Slovenia, Slovakia, Africa, LatAm, or even in India and Southeast Asia.

The reason I joined Diem is that I really believe on-ramps and off-ramps are absolutely critical to driving not just the development of blockchain as a technology, but the world economy, and frankly, a leveling of the playing field for participation in it. As William Gibson said, “The future is here. It's just not well distributed.”

The announcement of Bitcoin becoming the sovereign currency of El Salvador garnered a lot of news. But what most people don't know is that if you go to El Salvador and go surfing, which I have done, you can actually buy things in Bitcoin, right there, or the Lightning Network. And so, this is not just a press release by a corrupt legislature. This is actually a testbed for a super interesting use of Bitcoin.

However, I'm not sure it's the right technology. There are seven other countries in Latin America and Africa who are considering legislation to do the same thing. And at that point, that becomes something very interesting. I don't know if anyone here has spent a lot of time in Africa but I've spent some time there, and the M-Pesa network has defined a way of digital payments which is very blockchain compatible, but not yet perfectly connected. So I think that's a market that will move faster into the digital world from the traditional world.

An analogy I would use is, when I was in my early 20s, I rode a motorcycle from the north of Vietnam to the south. I was one of the first Americans — people there had met since they'd been at war with the U.S. I remember going into towns where we'd sleep at these guest houses on grass mats. And there would be a guy, usually a gangster, in the town who had a big, brick cell phone sitting on a table in the middle of the town. People would walk up and throw a few bills on the table and grab his phone and make a phone call. And I was like, “what's that?” And they told me that it was a payphone. That guy has a phone and he's renting it out. And I realized that Vietnam was never going to have copper wire phone lines. That was never going to happen they had leapfrogged the USA on connectivity

I use that analogy here to describe the digital payment networks, particularly Bitcoin, Ethereum, and blockchain payment networks. In many places, this will be the first and only digital money, and it will happen really fast. I think El Salvador is the beginning. I am not someone who wants to pick winners, whether it's Bitcoin, ETH, or Diem, or all of them. I have no idea. I think that we can't make those bets right now. But I do think you can see from the trend line that money and markets are becoming digital much faster than regulators or geopolitical influence can block them.

KENNY: I had this thought a couple days ago, which doesn't happen much, but with a new country or one that has gone through a lot of turmoil, if you're going to do first principles and try to figure out what their new currency is going to be, it's not going to be a reserve currency. It's not going to be a fiat currency. They are going to choose crypto.

I do believe it is inevitable that every country is going to go through this, and that's going to become the new standard. Back to the on-ramp topic, I do think these countries would love to take it back to the US. How is the US's position here versus Venezuela's? Is it on one extreme, or the other?

TITUS: When we talk about Venezuela, I have to be careful here. I've been to Venezuela before. There was a thriving digital black economy there. In Venezuela, you met a guy in an alley and gave him something, and he would transfer some Bitcoin to you. It was super risky and dangerous, but fascinating. A lot of that has to do with corruption and border controls.

A lot of people left Venezuela and they wanted to take some money with them. And even at the incredibly inflated prices at one time (Bitcoin in America was at 12 to $14,000 and in Venezuela it was 17 to $27,000 fluctuating on a daily basis), however you could memorize a seed phrase, and you could walk across the border and fly to Spain and have your money again. That was very valuable to people who needed geographic portability or were fleeing the regime

I wanted to say something about America, though. Because your question is really interesting. I think America for the last five years has been in danger of becoming a digital financial backwater. What we saw in congress over the last three weeks is evidence of this. We believe that we are a leader in the space, and our banking system defines our currency as the reserve currency of many countries — we keep pointing at this thing called Bretton Woods, which was a hastily negotiated agreement during the war and the distribution of US denominated debt notes - as evidence that this is always going to be the case.

But what digital and transformational technology has taught me over the last 50 years of my life, is that nothing ever stays the same. And in fact, the more reliant you are on that homeostasis, the more It will change suddenly, and absolutely. Right now, I think that change is happening. America is actually way behind, and things like what we're seeing in Congress right now are pushing innovation offshore.

I received a call last week to join the board of a famous protocol, and they said, "Listen, the only thing is, you have to move outside the US. You can only spend six months or less in the US, but you can't do that anymore." And I was like, "Oh, that's super specific and really interesting." They said, "you can be an American citizen, we're fine with that. You just can't physically reside in the United States. You need to spend two months a year in Zug, and you can spend the other four months anywhere you want, but not in America." I bring this up because that has never happened in the history of technology before. Never.

Think about that for a minute. America is suddenly the non-desirable place to build your innovative technology company.

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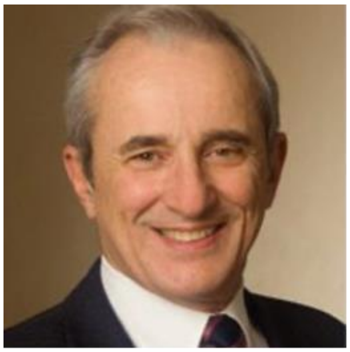
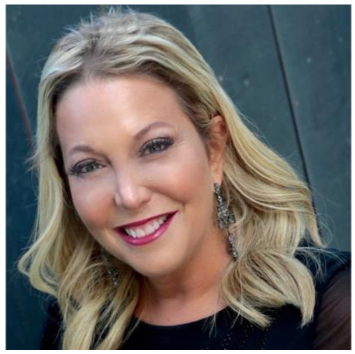


Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

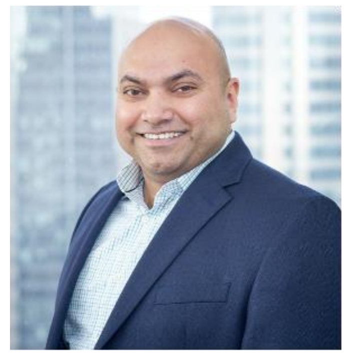
Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. Read on



Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. Read on



Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. Read on

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