



AMERICAN
BANKRUPTCY
INSTITUTE

ANNUAL SPRING MEETING

engage & evolve

**APRIL 20-22, 2023
JW MARRIOTT
WASHINGTON, DC**

Table of Contents

p.3	Introductions
p. 4 – 10	Crypto Overview and Landscape
p. 11 - 12	Collateral and Valuation
p. 13	Valuation and Distribution Issues
p. 14	Transactions and Communications
P. 15	Q&A

Today's Panel



Darren Azman

Partner

**McDermott Will &
Emery**

Restructuring

New York



Shari Dwoskin

Partner

Brown Rudnick LLP

Restructuring

Boston



Mark Renzi

Managing Director

BRG
Global FIG Leader

Restructuring

Boston



Michael Torkin

Partner

**Simpson Thacher &
Bartlett LLP**

Restructuring

New York



Hon. Michael Wiles

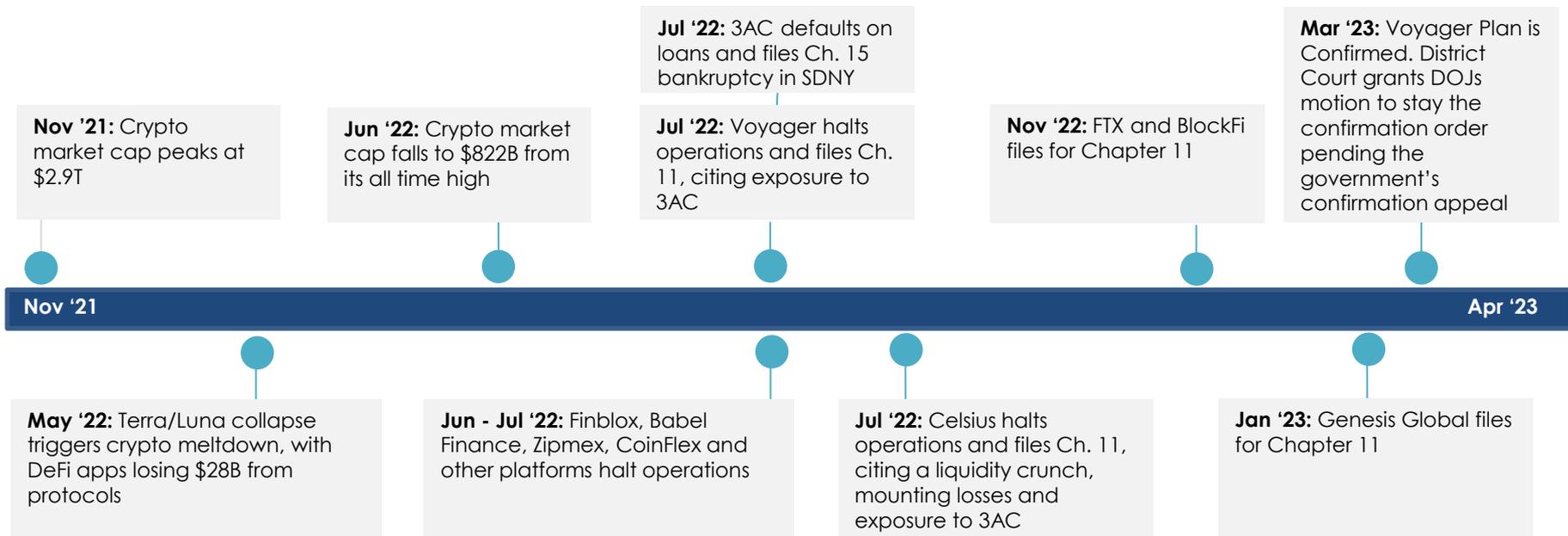
Judge

**U.S. Bankruptcy
Court (S.D.N.Y)**

Restructuring

New York

Timeline of Key Industry Events



Operation Chokepoint 2.0

- Following the collapse of FTX, the U.S. government has placed increased scrutiny on crypto in what appears to be a sophisticated and coordinated crackdown on the crypto industry
 - Industry observers have termed this apparent government campaign “Operation Chokepoint 2.0”
- Since December 2022, there have been over 20 actions from the U.S. government against crypto companies ranging across several state and federal agencies, suggesting potential coordination across departments
 - Departments / agencies engaged in actions against crypto companies include the White House, SEC, DOJ, FDIC, Federal Reserve, Treasury Department and the United States Congress, as well as state regulators
- Regulatory crackdowns has spanned the crypto ecosystem, impacting trading, lending, staking, custody, mining, crypto banking partners and NFTs
- During the Voyager Chapter 11 Plan (the “Plan”) confirmation process, there were numerous objections from the federal government and several state governments, including certain disclosure objections and objections related to customers in unsupported jurisdictions
- On March 27, the U.S. District Court granted the U.S. government’s motion to stay the Voyager confirmation order pending the government’s confirmation appeal

Industry Snapshot

ASSETS



BTC



ETH



Crypto Mining Assets



Crypto Loan



NFT

MEDIUM OF EXCHANGE



Crypto Exchange



DeFi Protocols



Peer to Peer



Cefi Platforms



NFT Marketplaces

INFRASTRUCTURE



Proof of Work



Proof of Stake



Hot Wallet



Cold Wallet



Web3

BENEFITS



Intermediate Settlement



Lower Fees



Global Access



Identity Protection



Fraud Prevention

FUTURE



Regulatory Scrutiny



Debit/Credit Cards



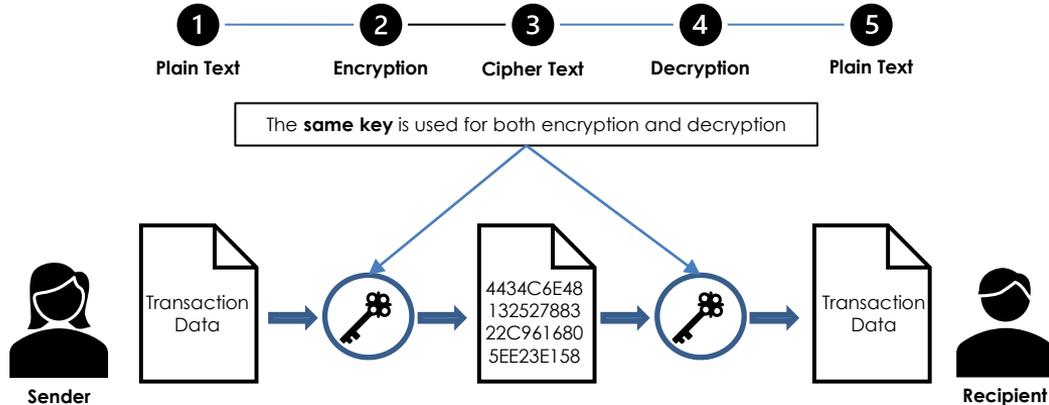
Financial Action Task Force



Global Economic Interconnectedness

Blockchain Technology

SYMMETRIC-KEY CRYPTOGRAPHY



One of the key attributes of blockchain technology is that it enables a trustless, decentralized peer-to-peer system with no central authority.

- A blockchain is a distributed, digital database on which transactions are recorded and copied in real-time to the blockchain's network of participants.
- Transactions on a blockchain are packaged into a "block" of data where participants must validate. This is done through an agreed-upon consensus mechanism, which replaces the trusted third party on a centralized network.
 - Blockchain protocols use a ledger maintained through consensus.
 - Instead of requiring real-world identities and admin-based permissions, blockchain protocols allow for anonymity through key cryptography to assign ownership to tokens on the ledger.

Each person who joins a blockchain network is issued a public key, which is a long string of letters and numbers—sort of like an email address—and a private key, which is equivalent to a password. Anyone can send tokens to you via your public key, but only the private key holder can access it in the "virtual vault" (or wallet) once it's been sent.

DEFI vs. CEFI

- **Decentralized Finance (DeFi)** promotes using shared blockchain-powered digital infrastructure to create peer-to-peer (p2p) financial products and services
 - DeFi projects rely on smart contract infrastructure primarily provided in the Ethereum and Solana blockchain networks.
- **Centralized Finance (CeFi)** involves centralized institutions storing funds (custody) and providing services primarily such as exchange, trading, and lending
 - CeFi serves as the primary on/off ramp for exchanging fiat currency to crypto-currency;

Governance

Custody

Pros/Cons

DeFi

- Companies specialize in broad p2p ecosystem
 - Includes infrastructure, payments, compliance, tokenization, lending, etc.

- Always self - or hybrid custody

- **Pros:** Open, fast, flexible and transparent
- **Cons:** Lack of regulatory clarity, risk of smart contract exploits

CeFi

- Single exchanges or other institutions offer a suite of financial products and solutions to account holders

- Sometimes hybrid but often third-party custody

- **Pros:** Intuitive and efficient with a clear method to move from fiat to crypto.
- **Cons:** Limited (but growing) capabilities, risk of asset loss from CeFi failure, uncertain regulatory environment

Wallet Overview

- **Self Custody** is when users store the private keys for their crypto in a private wallet not associated with an exchange or third party
- **Hybrid Custody** lies between self-custody and third-party management, allowing user flexibility while a custodian maintains key security
- **Hot Wallets (desktop, mobile or web)** are always connected to the blockchain; free and easy to use but has risks
- **Cold Wallets (paper or hardware)** have no internet connectivity; more secure option and easy to carry around

Hot Wallets

Online
Wallet



Mobile
Wallet



Cold Wallets

Desktop
Wallet



Paper
Wallet

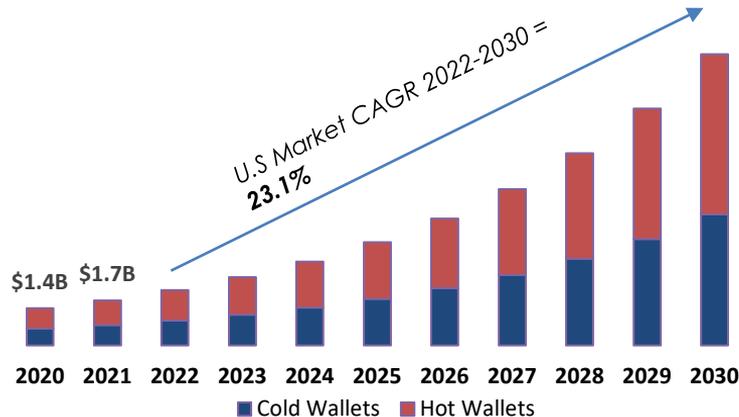


Hardware
Wallet



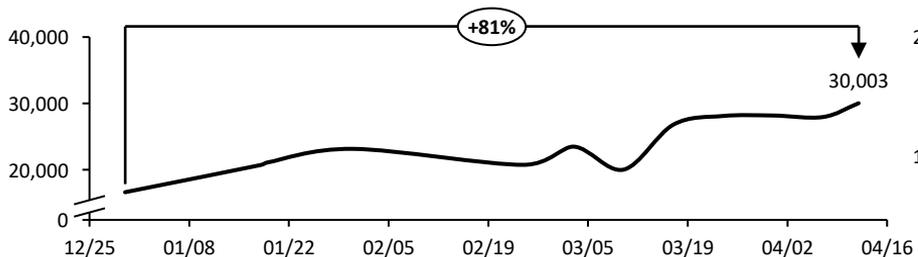
U.S. Crypto Wallet Market

size, by wallet type, 2020-2030 (USD Billions)

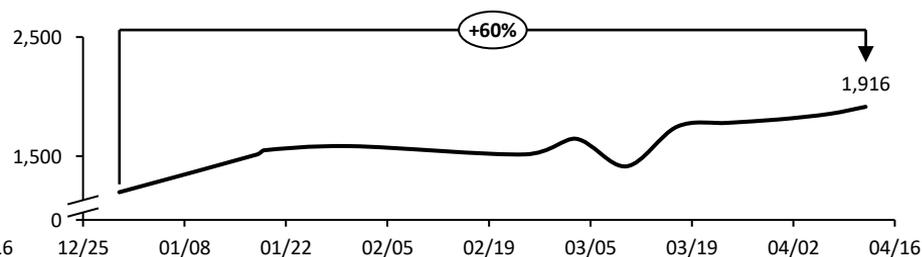


Crypto Pricing Movement

BTC +81% YTD Performance



ETH +60% YTD Performance



- Major crypto assets (e.g., BTC, ETH) pricing rallied in 2023
- Mar-23 stablecoin de-pegging:
 - Disruption in the stablecoin segment was temporarily disrupted in Mar-23
 - The market soon restabilized and risk of currency de-pegging was mitigated within 24 hours
- Implications for coverage for crypto lending platforms in bankruptcy:
 - Mismatched coins (i.e., majors vs. alt coins) on balance sheet could have significant impact on asset coverage

Section II: Collateral & Valuation

Valuation Issues:

- Custody Accounts & Wallets
 - Custody of customer crypto and loan collateral is controlled by the service provider
 - Crypto is deposited into custodian providers that offer private key security for a fee on deposits and withdrawals (hot and cold wallet storage)
 - Recent market events have resulted in increased counter party risk. If a custodian fails, there can be delays in withdrawals and risk of losses.
- FBO Accounts
- Loan Collateral

Section II: Collateral & Valuation

Rehypothecation:

- Rehypothecation is a way of generating credit from assets and allowing multiple financial transactions to be collateralized by the same asset
- Benefits: It helps to create liquidity for individual market participants and across the market and increases access to capital for businesses
- Criticisms: Destabilization of the crypto space, suppression of prices and reduction in the efficacy of blockchain security by taking claims to ownership off-chain that have not materialized
- Typical of assets that can be rehypothecated (subject to the terms of customer agreements) include collateral pledged against loans and crypto in yield / margin accounts
- Wallet agreements may restrict rehypothecation

Section III: Valuation Section IV: Distribution Issues

III. Valuation

- Avoidance Actions and Preferences
- Setoff
 - Collateral setoff reduces unsecured claim
 - Contestant movement in pricing impacts value of collateral

IV. Distribution Issues

- Cash vs. In-Kind
- Rebalancing portfolios
- Logistical issues
- Tax and Tax Basis

Section V: Transaction Issues Section VI: Communications

V. Transaction Issues

- Taxable event
- In-kind recovery
- Regulatory oversight

VI. Creditor Communications – these cases have much more fluid communications and more prolific use of social media and virtual town halls

- Social Media
- Town Halls
- Pro Se creditors / motions



ANNUAL SPRING MEETING

engage & evolve

Q&A