

Welcome to Morgan Creek Digital's weekly digital asset update. It is comprised of a thought piece from our team followed by a summary of what we consider the most compelling digital asset news during the last week. We hope you find this content interesting. Please let us know if you have any comments or questions or if you would like to speak to a member of the [Morgan Creek Digital team](#).

Central Banks and Governments' Role in Crypto



Our previous newsletters explored cryptocurrencies' suitability to serve a monetary role and the various forms of governance that seek to influence their economic value and use. Governance can take the form of an artificial mechanism, like smart contracts and immutable software ledgers, physical governing bodies, like central banks, lawmakers, and justice systems, or a hybrid formulation with multiple agents. We believe that governing agents are responsible for preserving monetary value by enforcing policies and standards. In short, transacting parties need to trust that the medium in which they store their wealth will maintain value over time, and when they choose to exchange, their transactions are validated.

Software solutions that mimic the functionalities of a central bank in a decentralized and near immutable way have validated the transfers of cryptocurrencies among thousands of network members. This way, all stakeholders within the network share the ledger of transactions, maintaining transparency. While these protocols have managed the exchange of cryptocurrencies thus far, traditional incumbents, like central banks and government entities, have also been actively developing digital governing models of their own.

Central Bank Digital Governance

Central bank digital currencies (CBDCs) may make finance more efficient by allowing users to directly deposit and withdraw funds to and from the central bank, bypassing conventional retail lenders. The drawback is that governance would be consolidated under state authorities rather than spread amongst decentralized networks, which

conflicts with the appeal of democratizing central institutions. Nevertheless, CBDCs could effectively replace conventional third-party payment rails as nearly 90% of the world's monetary authorities are experimenting with digital money.¹ For example, China's live e-yuan rollout continues to expand as state-run banks explore further usage including sales of investment funds and insurance.² In addition, the European Central Bank is engaged with leading payments companies like Italian-based Nexi to build a proposed central bank digital currency.³ And most recently, Federal Reserve chairman Jerome Powell noted that they are evaluating a CBDC pilot and its added value, including a multi-year research project with the Massachusetts Institute of Technology to explore technical use cases.⁴

CBDCs could, in theory, provide security to citizens that perceive state-guaranteed money as more stable. Whereas central authorities could be drawn to the increased autonomy that state-controlled payment rails provide over governing transactions, enforcing contracts, and managing the economic cycle. CBDCs could also provide a channel for cross-border payments and increase developed nations' global influence internationally. Other countries are proactively pushing hybrid models and stable coins to promote local currency over foreign e-currencies and the USD standard, thereby bolstering local economic activity.

Hybrid Model: El Salvador

On September 7th, El Salvador officially became the first country in the world to make Bitcoin legal tender, issuing a state-owned digital wallet, Chivo, and setting up state-sponsored Bitcoin ATMs across the country.⁵ The country has faced technological and infrastructural challenges, which have fueled citizens' protests and reluctance to adopt. Moreover, Salvadorans report that they do not entirely understand how to use cryptocurrency and fear that the law to make Bitcoin legal tender could signal compulsory government intervention.⁶ The massive technological shift is sure to result in criticism and opponents. Still, in the long-term, the adoption of Bitcoin could serve the roughly 70% of Salvadorans who lack access to conventional financial services and act as a channel for transferring billions of dollars in remittances issued annually by expatriate Salvadorans.⁷ In addition, the government of El Salvador is likely motivated to stimulate local economic activity and investment, as the current medium of exchange is primarily USD. The hybrid model of legalizing a decentralized cryptocurrency while simultaneously supporting its accessibility on government-owned digital wallets is undoubtedly provoking. Still, it remains to be seen if this hybrid model could be replicated elsewhere.

Conclusion

Proponents of decentralized finance prefer that the digital monetary system and its exchange be fully autonomous. We believe that for any monetary system to succeed, it must to some extent integrate with the conventional financial and legal systems, as Gary Gensler, the SEC chairman, has described.⁸ Furthermore, we consider governance, whether centralized or decentralized, necessary to preserve the stability of cryptocurrencies and enforce standards.

THE RUNDOWN:

Coinbase to Allow US Users to Deposit Paychecks Directly in Crypto: Coinbase will enable direct paycheck deposits, the U.S. cryptocurrency exchange giant announced in a blog post Monday. The nine-year-old, publicly traded company said it will allow users in the U.S. to deposit "as much or as little" of their paycheck at no fee, whether in crypto or fiat currency. Coinbase said that direct deposit would address concerns that making frequent transfers was too time consuming, and will allow users to make investments, earn interest on digital assets or pay for goods and services with greater speed and efficiency. [Read more.](#)

Almost a Third of Salvadorans Are Using the Bitcoin Wallet, Bukele Says: Almost a third of Salvadorans are actively using the Chivo bitcoin wallet less than a month

after the country adopted the cryptocurrency as legal tender, President Nayib Bukele said in a tweet. Some 2.1 million people are using the wallet, Bukele said in a tweet. That's more users than any bank in the country, he said. El Salvador has a population of about 6.5 million people, according to the CIA World Factbook. [Read more.](#)

Jamie Dimon Says 'You're a Fool' If You Borrow to Buy Bitcoin, and That He Wouldn't Care If Its Price Increased 10 Times: Jamie Dimon, chairman and CEO of JPMorgan Chase, once again reiterated his opposing stance on cryptocurrencies in a recent September interview. "I think if you borrow money to buy bitcoin, you're a fool," the JPMorgan boss told Times of India. "I don't really care about bitcoin ... I am not a buyer of bitcoin." [Read more.](#)

Morgan Stanley Doubles Exposure to Bitcoin Through Grayscale Shares: Major U.S. investment bank Morgan Stanley has more than doubled its shares of Grayscale Bitcoin Trust since April. According to a report from the United States Securities and Exchange Commission, or SEC, filed Sept. 27, the Morgan Stanley Europe Opportunity Fund, which invests in established and emerging companies throughout Europe, owned 58,116 shares of the Grayscale Bitcoin Trust, or GBTC, as of July 31. [Read more.](#)

¹ www.theweek.co.uk/business/banking/953502/govcoins-everything-you-need-to-know.

² <https://markets.businessinsider.com/news/currencies/china-digital-currency-yuan-cbdc-banks-cryptocurrency-lenders-investment-insurance-2021-8>

³ <https://www.cnn.com/2021/09/22/payments-giant-nexi-working-european-central-bank-on-digital-euro.html>

⁴ <https://www.reuters.com/business/fed-release-paper-central-bank-digital-currency-soon-powell-says-2021-09-22/>

⁵ <https://www.coindesk.com/business/2021/09/16/el-salvador-bitcoin-adoption-possesses-immediate-negative-implications-credit-rating-agency-says-report/>

⁶ <https://www.reuters.com/technology/majority-salvadorans-do-not-want-bitcoin-poll-shows-2021-09-02/>

⁷ <https://www.npr.org/2021/06/06/1003755600/bitcoin-cryptocurrency-money-el-salvador>

⁸ <https://www.economist.com/finance-and-economics/2021/09/18/operation-tame-finance>

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