

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](#).

Assuming the Monetary Role: Cryptocurrencies Suitability



Introduction

In one of our previous newsletters, *The History and Functionalities of Money*, we explored various mediums of exchange throughout history. As a reminder, a single medium of exchange or small-medium number of exchanges widely accepted by the free market to have value is considered money.¹ Beyond that, another critical ingredient is acceptability or trust, as the more people that accept a currency, the more liquid it typically becomes. We think some people have chosen cryptocurrencies as the newest digital alternative to fiat currency as a means to preserve economic value across time. We also believe that the monetary properties and decentralized network found in Bitcoin have paved the way for digital assets to serve as both a verifiable and efficient form of money.

Contextual Framework

Historically, two parties transferred physical money through an in-person exchange, which meant the transaction was both immediate and final. In modern times, as economies have advanced with the digital age, face-to-face exchanges have become increasingly inefficient and impractical. Therefore, society developed intermediate payment systems that require third parties such as credit cards, debit cards, bank wires,

and most recently, digital fintech providers. The major drawback to this medium is the reliance on third parties, which heightens the risk of fraud, operational failures, additional cost to the two parties and unwanted monitoring. Moreover, digital payments decrease people's control over their money, delegating that control to a centralized entity. Additionally, we think fiat currencies may further reduce peoples' sovereignty over their wealth as central banks can decrease their value by inflating the money supply to fund government operations.

Monetary Proprieties of Bitcoin

Verifiability and Acceptability

Bitcoin is a distributed software solution that allows the transfer of inflation-protected and decentralized currency. In other words, Bitcoin is programmed into code that mimics the functionalities of a central bank in a decentralized and near immutable way among thousands of network members. No singular individual or institution can alter the code. Every transaction is recorded by all network members so that there is one verifiable shared ledger of transactions. Furthermore, we believe the high output of processing power needed to solve the proof-of-work (PoW) and the immaterial cost of validating a transaction is inextricably linked to Bitcoin's security.² Therefore, we feel creating fraudulent transactions on the ledger offers no extrinsic reward as it wastes substantial electrical power on PoW. At the same time, validators can reject the nodes at a near-zero cost.³ The layer of security has gained the trust and acceptance of many, resulting in increased liquidity.

Preserving Value

PoW is the relatively expensive artificial mechanism that prevents easy money production and that may preserve value across time.⁴ Bitcoin is a rare example of a currency with a predetermined and programmed stock-to-flow growth ratio, a liquid commodity with a fixed quantity that cannot be easily increased. Bitcoin's volatility derives from its supply being entirely immutable and not reactive to fluctuations in demand. For most commodities, the ebb and flow of the market influences supply production. For example, an increase in demand results in the growth of production, price and producer return, whereas a decrease in demand results in a supply decrease and stabilizes losses. Similarly, central banks are tasked with using monetary policy to counterbalance fluctuations in the economy. However, Bitcoin has a fixed supply capped at 21 million, which is set forth by its source code.⁵ Additionally, Bitcoins are mined at a fixed rate of one block every ten minutes.² The miner's reward of Bitcoins per block is reduced by 50% on a four-year cycle.⁵

Conclusion

Morgan Creek Digital envisions a future in which cryptocurrencies serve an advanced monetary role because of their verifiability, acceptability, and preservability across time. Moreover, technological advancements and new digital currencies may empower people to discover the most efficient monies. We will continue to monitor the ever-changing world of digital currencies and evaluate solutions based on their ability to preserve economic value across time securely.

THE RUNDOWN:

Mastercard Acquires Crypto Tracing Firm CipherTrace: Payments giant Mastercard has agreed to buy CipherTrace, a firm that scans blockchains for illicit transactions. The surprise acquisition announced Thursday by the companies in a press release gives Mastercard the ability to track over 900 cryptocurrencies. Details of the acquisition were not disclosed. [Read more.](#)

SEC Sets November Deadline for Final Decision on VanEck Bitcoin ETF: The Securities and Exchange Commission has once again delayed ruling on VanEck's bid

for a bitcoin exchange-traded fund. The U.S. regulator on Wednesday gave itself until Nov. 14 to approve or reject “VanEck Bitcoin Trust,” one of the earliest bitcoin ETF hopefuls to try its luck this filing cycle, and the first whose judgment day has been delayed three times. [Read more.](#)

Giancarlo on Coinbase-SEC Clash: ‘Don’t Apply 90-Year-Old Statutes’: Coinbase’s tussle with the U.S. Securities and Exchange Commission highlights the need for clearer rules for digital assets, according to former Commodity Futures Trading Commission Chairman Chris Giancarlo. In an appearance on CoinDesk TV’s “First Mover” Thursday, the regulatory veteran, nicknamed “Crypto Dad” for his favorable views of the technology, described the current rules as anachronistic and unevenly enforced. [Read more.](#)

Former Crypto-Friendly Regulator Quintenz Joins VC Firm A16z: Former crypto-friendly commodities regulator Brian Quintenz has joined venture capital firm Andreessen Horowitz as a part-time adviser. Announced Thursday, Quintenz becomes the latest high-profile addition to the firm, which has backed numerous projects in the tech and crypto industries. The prolific VC firm raised over \$2 billion for its Crypto Fund III earlier this summer. [Read more.](#)

CFTC’s Berkovitz to Step Down Next Month: Dan Berkovitz, one of the top officials at the Commodity Futures Trading Commission, intends to depart the agency on Oct. 15. Berkovitz announced his departure on Thursday, noting he has worked with the CFTC, Congress and the private sector over the past 20 years on financial markets, including with the Dodd-Frank Act. He has served as a CFTC commissioner since September 2018. In a statement, the regulator thanked his fellow commissioners, the CFTC staff he worked with and the lawmakers whose work involves the agency. [Read more.](#)

¹ Ammous, S. (2018). The bitcoin standard: The decentralized alternative to central banking. John Wiley & Sons, Inc.

² Hertig, A. (2020, December 16). What is proof-of-work? CoinDesk. <https://www.coindesk.com/tech/2020/12/16/what-is-proof-of-work/>.

³ Ibid.

⁴ Ibid.

⁵ Pirus, B. (2020, December 17). Don't think Bitcoin's supply is Finite? You probably don't understand the tech. Cointelegraph. <https://cointelegraph.com/news/don-t-think-bitcoin-s-supply-is-finite-you-probably-don-t-understand-the-tech>.

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