BLOCKCHAIN OPPORTUNITIES FOR WASHINGTON STATE

Jesse Proudman, CEO, Strix Leviathan, LLC

December 1, 2020

INTRODUCTION:
JESSE PROUDMAN



CO-FOUNDER and CEO, STRIX LEVIATHAN

IBM Distinguished Engineer
Founder of Seattle-based Blue Box
23-year Technical Founder

Raised $22M in venture capital, scaling Blue Box to 65 employees. Acquired by IBM in June of 2015 to establish IBM's Seattle Cloud footprint. Post acquisition, grew our organization to ~180 employees.

Life-long Washington resident and business owner. University of Washington Buerk Center for Entrepreneurship Board Member. Active angel investor focused on Pacific Northwest startups.

STRIX LEVIATHAN:
TECHNOLOGY FIRST DIGITAL ASSET MANAGER

- Founded January 2018. Operating for ~ 3 years.
- Developed the most comprehensive investment software platform (named Octopus) in the industry. Utilized to power active and passive asset management for digital assets.
- Preparing to launch a passive investment product called ***MAKARA DIGITAL*** in Q1 2021.
- Managing ~ $10M in assets across two funds.
- $3M in seed funding and operationally profitable. Backed 29 WA based Investors and:

SIGNUM. CAPITAL

L2 VENTURES

Founders' Co-op.

FUTURE \ PERFECT VENTURES

CAPITAL6

+80 digital assets traded

$500m in trading volume

31 months of trading

Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto
satoshin@gmx.com
www.bitcoin.org

Abstract. A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

- **INVENTED NOTION OF DIGITAL SCARCITY**
- **PERMISSIONLESS**
- **DECENTRALIZED**
- **UNCENSORABLE**
- **GLOBAL**

Bitcoin: A Peer-to-Peer Electronic Cash System

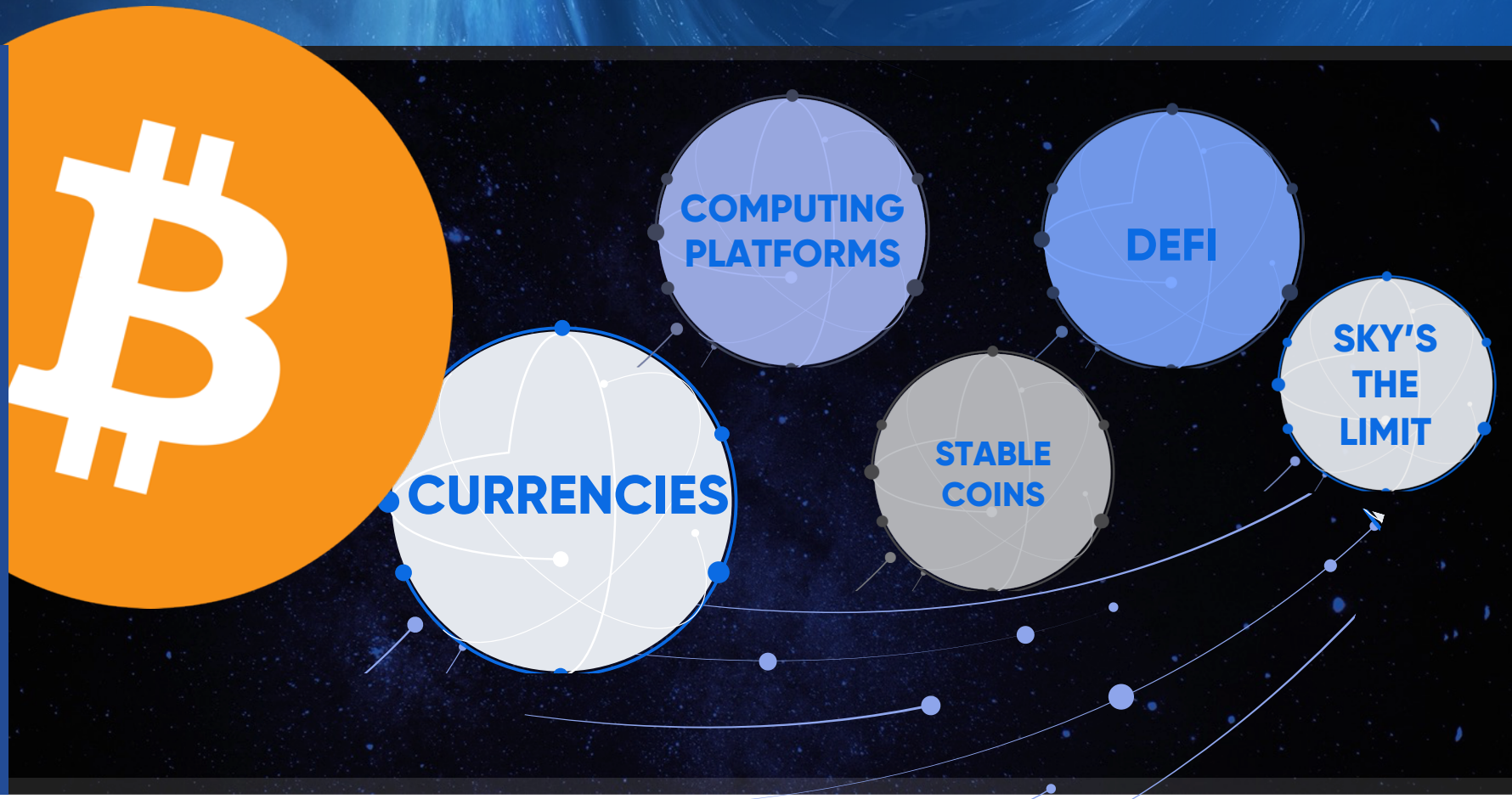
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THE "BLOCKCHAIN" UNIVERSE IS VAST AND EXTENDS WELL BEYOND BITCOIN

Bitcoin brought blockchain to the world but blockchain has grown beyond bitcoin to an entire ecosystem of digital assets.

- Platform Tokens
- Security Tokens
- Transactional Tokens
- Utility Tokens
- Governance Tokens



MAJOR INSTUTIONS ARE FLOCKING TO THIS ASSET CLASS

yahoo!finance

SKYBRIDGE

Scaramucci's $9.2B SkyBridge 'May Seek Exposure to Digital Assets'

Forbes

citibank

Leaked Citibank Report Reveals Bitcoin Could Rocket To $300,000 Price By End Of 2021

THE WALL STREET JOURNAL.

MicroStrategy

'Cash Is Trash,' So Let's Bet $425 Million on Bitcoin

Bloomberg®

Guggenheim Fund Reserves Right to Put Up to 10% in Bitcoin Trust ($500M)

CNBC

J.P.Morgan

JPMorgan creates new unit for blockchain projects, says the technology is close to making money

coindesk®

Deutsche Bank

Deutsche Bank Says Investors Increasingly Prefer Bitcoin Over Gold as Inflation Hedge

MarketWatch

PayPal

PayPal stock shoots to record high after introducing cryptocurrencies to platform

KEY ISSUES FACING WASHINGTON DIGITAL ASSET BUSINESSES

CRITICAL ISSUES FACING WA BUSINESSES
PROHIBITIVE COST OF COMPLIANCE

Regulatory uncertainty and conflicting information leads to an expensive legal burden for startups in the state.

This has a direct impact on job growth in the industry.

As a startup, we run very lean but our legal and regulatory costs are a significant drain on resources.

- **2018** - $189,101 in legal fees (15% of all expenses)
- **2019** - $206,708 in legal fees (21% of all expenses)
- Payroll dropped from 68% in 2018 to 54% in 2019
- Unable to hire new roles due to rising legal/insurance costs

CRITICAL ISSUES FACING WA BUSINESSES
SAFE HARBOR PROVISION

- Startups choosing to do business in Washington are expending resources to interpret existing regulation and anticipate future regulation as it pertains to these new business lines **in good faith**. These technologies are often evolving faster than the state of regulation leaving many startups operating in nebulous grey zones.

- Retroactive penalties for regulatory violations that may not have been clear at the time of infraction will continue to deter blockchain startups from establishing a presence in Washington State.

- State approach needs to be adaptive as this market evolves. *"The analysis of whether a token is offered or sold as a security is not static and does not strictly inhere to the digital asset." - SEC Commissioner Hester M Peirce, Token Safe Harbor Proposal 2-6-20*

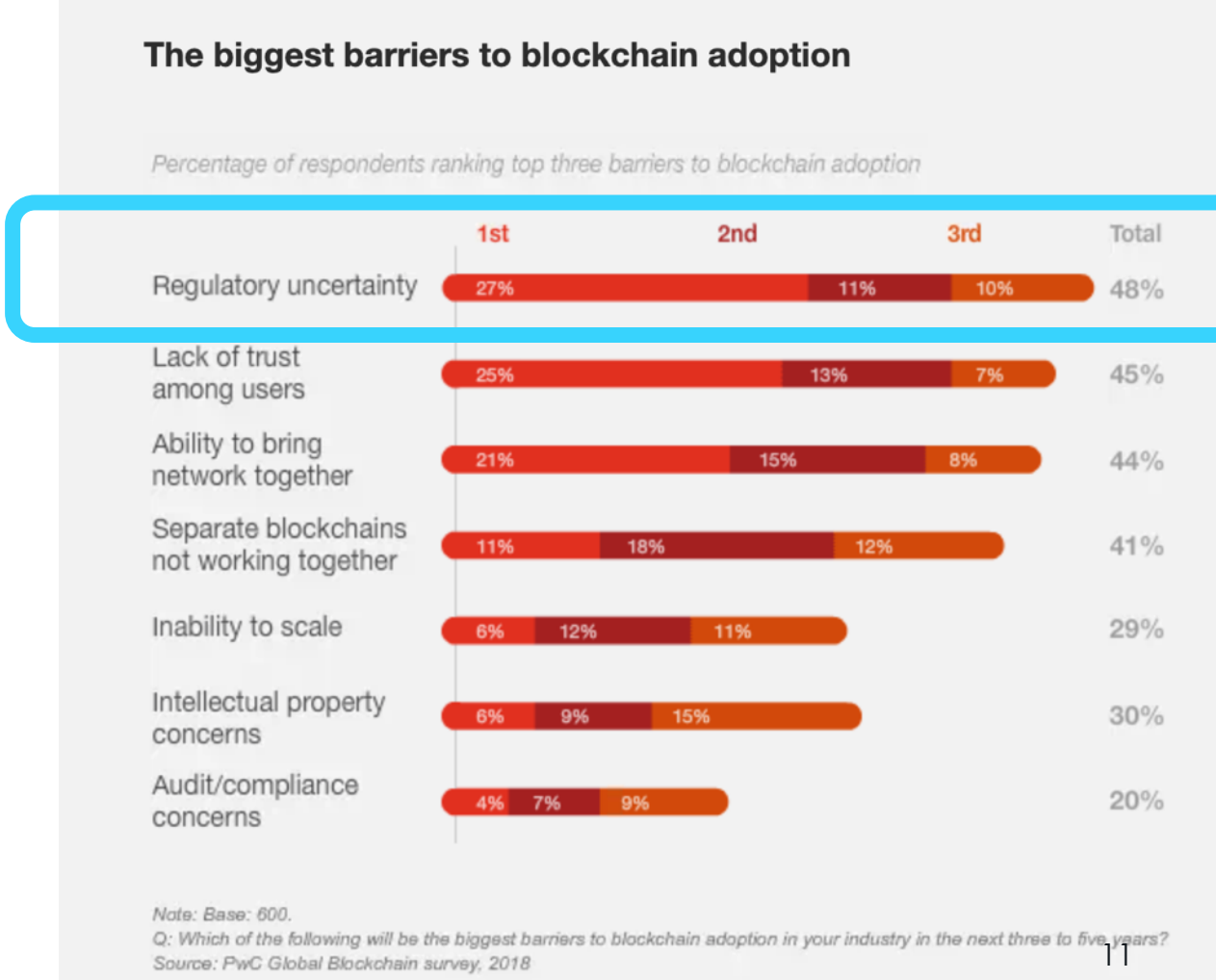
- Safe Harbor should not provide immunity for bad actors engaging in fraud or illicit activities. Safe Harbor provides protection for those entrepreneurs taking proactive and thoughtful approaches to this rapidly expanding industry.

Building a Regulatory Safe Harbor can attract companies to Washington.

CRITICAL ISSUES FACING WA BUSINESSES
LACK OF TAXONOMY AND GUIDANCE

Regulatory uncertainty is one of the largest barriers to adoption and investment.

To address this, legislative bodies can take immediate action by engaging in open communication with industry participants focused on **building a clear asset taxonomy** and **compliance process**.



REALITY OF THIS INDUSTRY IS FAR FROM THE COMMON CRITICISMS

Blockchains are Transparent Ledgers - More transparency than most appreciate. AML / KYC / OFAC Checks are industry standards. Money laundering as a fraction of total transaction volume is orders of magnitude smaller than in traditional fiat currencies.

Functioning Products and Platforms – 2017's "ICO" fundraising craze resulted in lofty ideas with limited execution. Fast forward three years and we've seen an enormous shift in the sophistication and capabilities of this asset class. The charlatans have largely been banished after a three-year drought.

Industry Security Has Improved Dramatically – Hacks and theft prevalent in the 2015-2017 era markets have been reduced given focused industry attention and the rise of qualified custodians focused on safe storage.


WHY DOES THIS MATTER?

BLOCKCHAIN AND DIGITAL ASSETS ARE HERE TO STAY

"[Virtual currencies] may hold long-term promise, particularly if the innovations promote a faster, more secure and more efficient payment system."
—Ben Bernanke, Chairman of the Federal Reserve

"Whereas most technologies tend to automate workers on the periphery doing menial tasks, blockchains automate away the center. Instead of putting the taxi driver out of a job, blockchain puts Uber out of a job and lets the taxi drivers work with the customer directly."
—Vitalik Buterin, co-founder Ethereum

THE BIG PICTURE

BLOCKCHAIN
is to the
Future of Finance
as the
INTERNET
was to the
Future of Commerce



A GLOBAL TOKEN ECONOMY CREATES UNIQUE REGULATORY CHALLENGES

Who has jurisdiction?

- Example: Strix Leviathan (Domiciled in WA, Registered in DE) trades with X Company (Domiciled in Hong Kong, Registered in Singapore) with assets held by qualified custodian (Domiciled in CA, Registered in SD).

All tokens are not the same

- MiCAR (European Commission) treats all DLT assets the same which leads to major issues.
- US regulators vary: IRS – Property, CFTC – Commodity, SEC – only specific designations so far (i.e. BTC is not a security).

Banking regulations – again, one size does not fit all

- Should not apply to all tokens (e.g., non-fungible tokens)
- FAFT Travel Rule – the spirit of this measure is not the issue, the application is. Instead of grafting requirements built for legacy systems, develop new approaches that work with the technology.

Isolated actions by states may not provide relief

- The result is "a patchwork of inconsistent legislation." *(Digital Chamber of Commerce)*
- New York – created the BitLicense in 2015, process too expensive and time intensive for most startups
- Wyoming – enacted 13 Blockchain laws in 2019 to bring capital, jobs and revenue to WY, not aimed to align federal and state regulations on the industry

REGULATORY PROGRESS
MOVING IN THE RIGHT DIRECTION

- **WA DFI & Strix Leviathan** – We have been actively engaged with the DFI for the past 2 years and are now in the process of applying to be the first RIA in WA focused solely on trading digital assets. Regular communication and engagement like this is key to growth of this industry in Washington State.

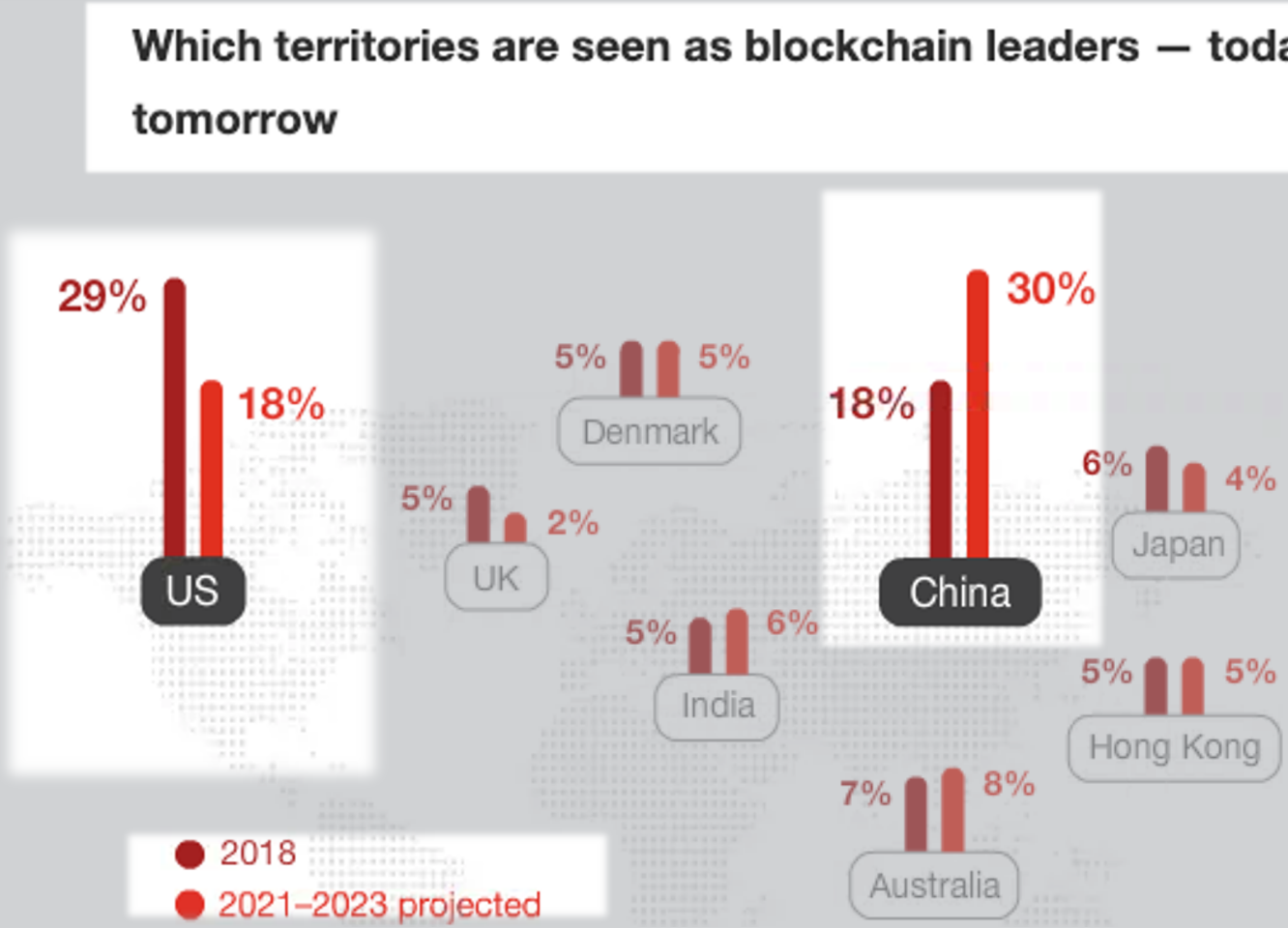
- **Conference of State Bank Supervisors** – Regulators in 49 U.S. states have agreed to a single set of supervisory rules for money services businesses, including cryptocurrency service providers.

- **The Office of the Comptroller of Currency** – July 2020 gave permission to Federally Chartered Banks and Thrifts to provide custody services for cryptocurrency. Safeguarding of assets is important for investor protection.

- **Wyoming** – Taking a progressive approach. Defined "utility tokens", granted banking charters to crypto companies.

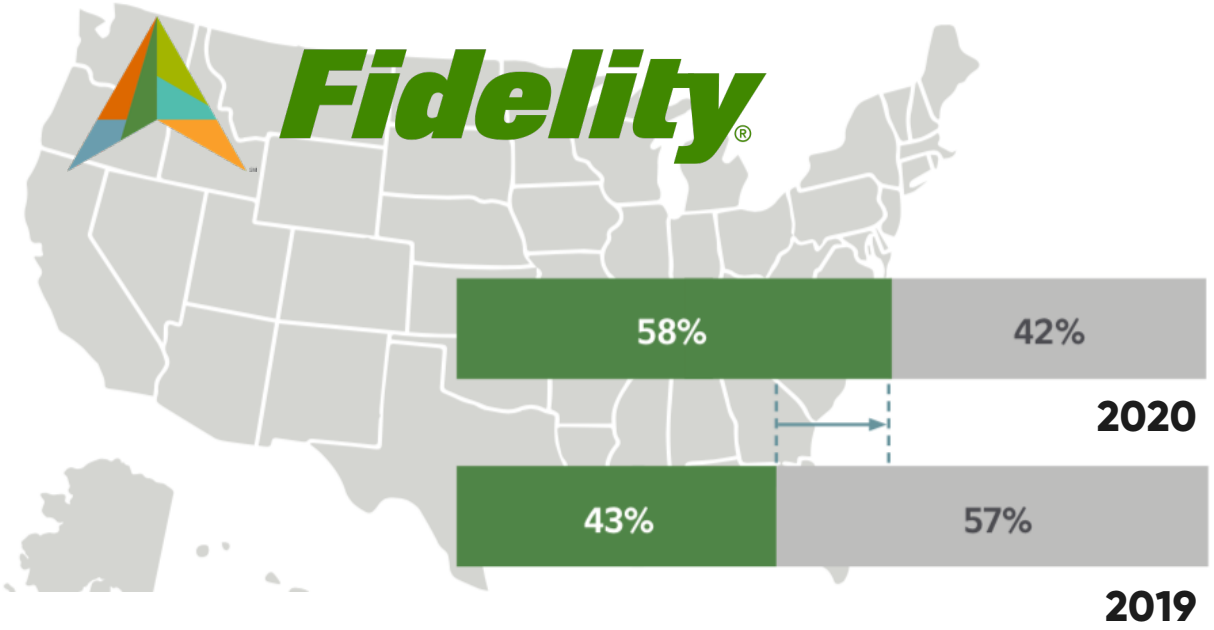
WASHINGTON HAS A "ONCE IN A LIFETIME" OPPORTUNITY

GLOBAL EMPLOYMENT TRENDS SHOW
ASIA LEADS THE WAY



Source: PwC's Global Blockchain Survey

INVESTORS REQUIRE REGULATORY CLARITY



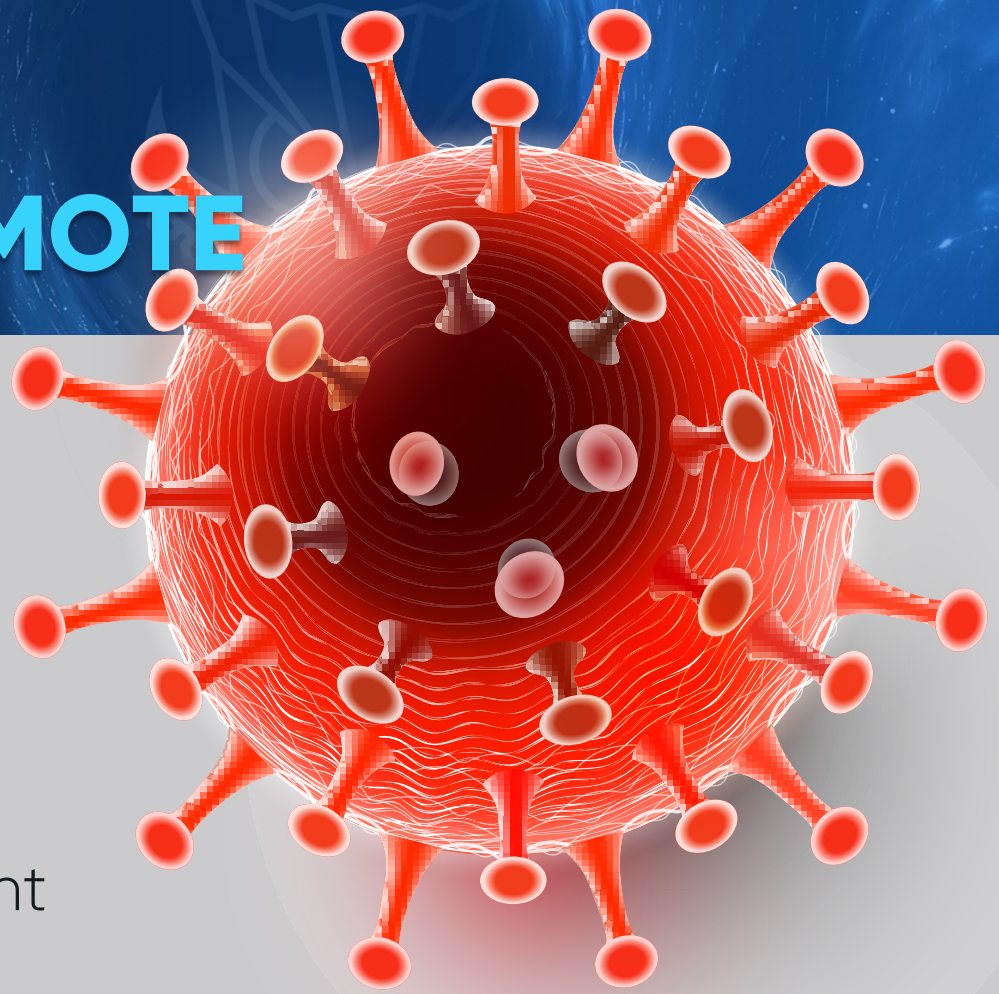
58% of investors have a neutral or positive perception of digital assets

+60% of investors believe digital assets have a place in a portfolio

39% of investors hold concerns around regulatory classification

Source: Fidelity Digital Assets: The Institutional Investors Digital Assets Survey 2020 Review

IN A POST COVID WORLD
THE FUTURE OF WORK IS REMOTE



Washington is uniquely positioned to benefit from the shift to remote work.

- Fantastic place to live
- Rich with entrepreneurs and engineering talent
- World renowned research Universities
- Friendly tax jurisdiction

Digital Asset Finance, Mining and Blockchain Technology Companies are searching for friendly jurisdictions.

IN CLOSING

REFERENCES AND RESOURCES

- **Strix Leviathan Research**
  https://strixfund.com/digital-asset-research

- **Discovering Digital Assets -** A Primer on Digital Assets:
  http://strixfund.com/discovering

- **Currently Virtual Currency License Holders in Washington State:**
  https://dfi.wa.gov/sites/default/files/documents/virtual-currency-licensee-list.pdf

- **Fidelity Digital Assets: The Institutional Investors Digital Assets Survey 2020 Review**
  https://www.coindesk.com/research/reports/fidelity-digital-assets-the-institutional-investors-digital-assets-survey-2020-review

- **University of Cambridge: 3rd Global Cryptoasset Benchmarking Study**
  https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/3rd-global-cryptoasset-benchmarking-study/

- **PwC's Global Blockchain Survey**
  https://www.pwc.com/gx/en/industries/technology/blockchain/blockchain-in-business.html