

## Expanding Horizons: ETFs Widen The Retail Gateway Into Crypto, Visa Embraces NFTs, And The Rise Of Web3+AI

Monthly Insights

January 25, 2024

- The spot bitcoin ETF launch was successful with \$3.3Bn in inflows in the first week
- The SEC approval of bitcoin spot ETFs is a watershed moment
- The Chinese government has big plans for the country's Web3 sector
- Payment powerhouse Visa launches a Web3 loyalty engagement solution available to all its 80 million partners globally
- The highlights of crypto developer activity in 2023: robust growth among experienced developers, and the crypto developer community is becoming increasingly global

## KEY THEMES

### Spot Bitcoin ETFs Are Approved And Begin Trading In The U.S.

- On January 10th, 2024, the U.S. Securities and Exchange Commission approved eleven spot bitcoin exchange-traded funds (ETFs). The launch of and subsequent inflows have captured broad attention.
- The first spot bitcoin ETFs in the U.S. saw roughly \$4.5Bn in day-one trading volumes, according to Yahoo Finance data.
- The gross inflows of spot bitcoin ETFs reached a whopping \$3.3Bn in the first five days, with two issuers (Blackrock and Fidelity) breaking the \$1Bn AUM mark. The net number, however, excluding the \$2.2Bn GBTC outflows and other adjustments, was closer to \$1Bn, according to FalconX.
- Crypto investment products saw a record \$17.5Bn trading volume in the week following the approval, according to CoinShares.
- The bitcoin spot ETF has been in the making for over ten years. First proposed by the Winklevoss brothers in 2013, Bitcoin's market capitalization has risen from less than \$1Bn to \$800Bn since.
- **10SQ VIEW:** *Based on the numbers for the first week, the spot bitcoin ETF launch was successful and simultaneously in line with the highly demanding market expectations. The SEC approval of bitcoin spot ETFs firmly establishes crypto as an alternative asset class for investors. The approval supports rising institutional interest in crypto and may pave the way for an ETH spot ETF in the near future. Other funds have already declared that they will allocate a % of their AUM to bitcoin Spot ETF, building second order demand.*

[Link](#)

### Visa Enters Web3 Loyalty Available To Its 80 Million Partners Globally

- Visa announced the launch of the Visa Web3 Loyalty Engagement Solution, which will let brands create digital wallets where they can store reward points and experiences, such as online or real-world experiences in travel, sports, and entertainment, on behalf of consumers. The solution is powered by SmartMedia Technologies, an enterprise Web3 platform, and runs on the BLOCKv protocol.
- In practice, this means that brands will be able to reward customers with tokens and digital collectibles for purchases, social media interactions, augmented reality treasure hunts, and informative polls.
- **10SQ VIEW:** *Visa Web3 Loyalty Engagement Solution allows brands to provide virtual, digital, and real-world experiences to their next-gen consumers. With 4.3Bn cards and over 80 million partners worldwide, Visa's loyalty program can have a massive positive impact on Web3 adoption. NFT loyalty programs are a key trend that TenSquared is focused on as an area of enterprise adoption. Some loyalty programs are seeing a 40% increase in community engagements and an 18% increase in spending.*

[Link](#)

# KEY THEMES

## Fox Corporation Partners With Polygon Labs To Launch Blockchain-based Content Verification Platform

- Fox Corp and Polygon Labs released a blockchain-powered tool, "Verify," to fight AI-generated media stories or other deep fake content. Verify will track cryptographically signed media and negotiate content licensing deals with artificial intelligence firms.
- **10SQ VIEW:** *As AI capabilities continue to evolve, proving content authenticity becomes a priority. Generative AI has the potential to create a flood of misinformation and deepfakes as the cost of content creation falls. Blockchain provides an essential framework to anchor the authenticity and provenance of content on-chain.*

[Link](#)

## PayPal's Stablecoin Market Capitalization Grows Six-Fold And Crosses \$300M

- PayPal introduced PYUSD in August 2023. The firm would like the stablecoin to be used for payments and trading within the PayPal app.
- The market capitalization has since surged over six-fold and reached \$300M as of January 20, 2024, per Coingecko. PYUSD's adoption on centralized exchanges such as Crypto.com and Kraken, along with its integration into decentralized finance protocols, have contributed to its growth. This positions PayPal among the top ten stablecoin issuers.
- **10SQ VIEW:** *Initial uptake of PYUSD was slow but signs of adoption are emerging and the upcoming year can see PYUSD cement itself as a key player in the industry.*

[Link](#)

## China Forms Metaverse Working Group With Huawei, Tencent, Ant Group And Others

- The Ministry of Industry and Information Technology of China has formed a working group to push for standardization for the metaverse sector as the world's second-largest economy looks to drive the growth of the nascent industry.
- The working group participants include representatives from the government, academia, and corporations, such as Huawei, Tencent Holdings, Ant Group, Baidu, NetEase, Lenovo Group, and others.
- **10SQ VIEW:** *Despite its cryptocurrency ban, the Chinese government has big plans for the country's Web3 sector. NFTs and Decentralized Identity management systems projects are among the projects getting the most attention.*

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## FASB Publishes Its First Direct Accounting Standard For Reporting Crypto Assets

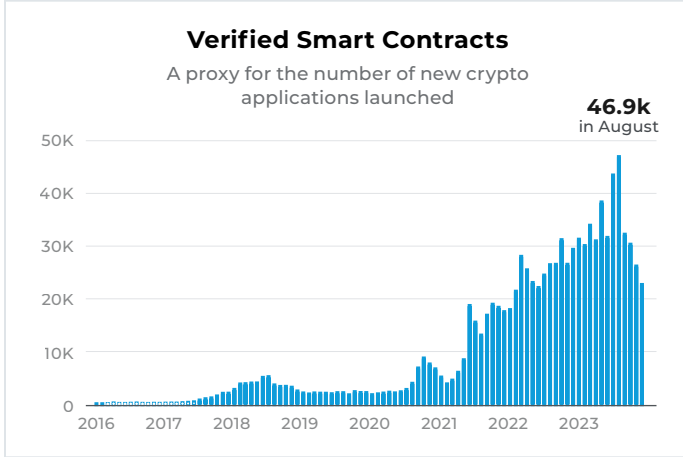
- The rules require crypto assets that meet six characteristics to be measured at fair value each reporting period, with changes in fair value recognized in net income—mark to market of tokens to be captured.
- The assets must be separately presented on the balance sheet from other intangible assets as well as separately shown in the income statement when remeasured.
- **10SQ VIEW:** *The new rules better reflect the true economics of digital assets and deliver clarity to CFOs and accounting teams focused on the task.*

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TenSquared (10SQ) is a growth equity firm focused on mid-stage **Inflection Point Investing** where Digital Asset Ecosystem (DAE) companies transform into future technology leaders.

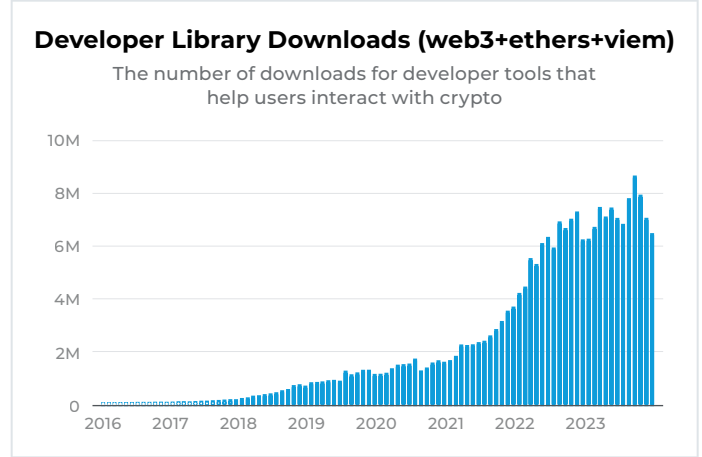
# HIGHLIGHTS OF CRYPTO DEVELOPER ACTIVITY IN 2023

- The building in the Digital Asset Ecosystem continued in 2023 with a robust pipeline of product launches. The number of verified smart contracts deployed reached an all-time high in August 2023.
- Core crypto developer library usage has been steadily increasing, highlighting solid growth in the developer community.



Contract verification assures that the published contract code is the same code running at the contract address.

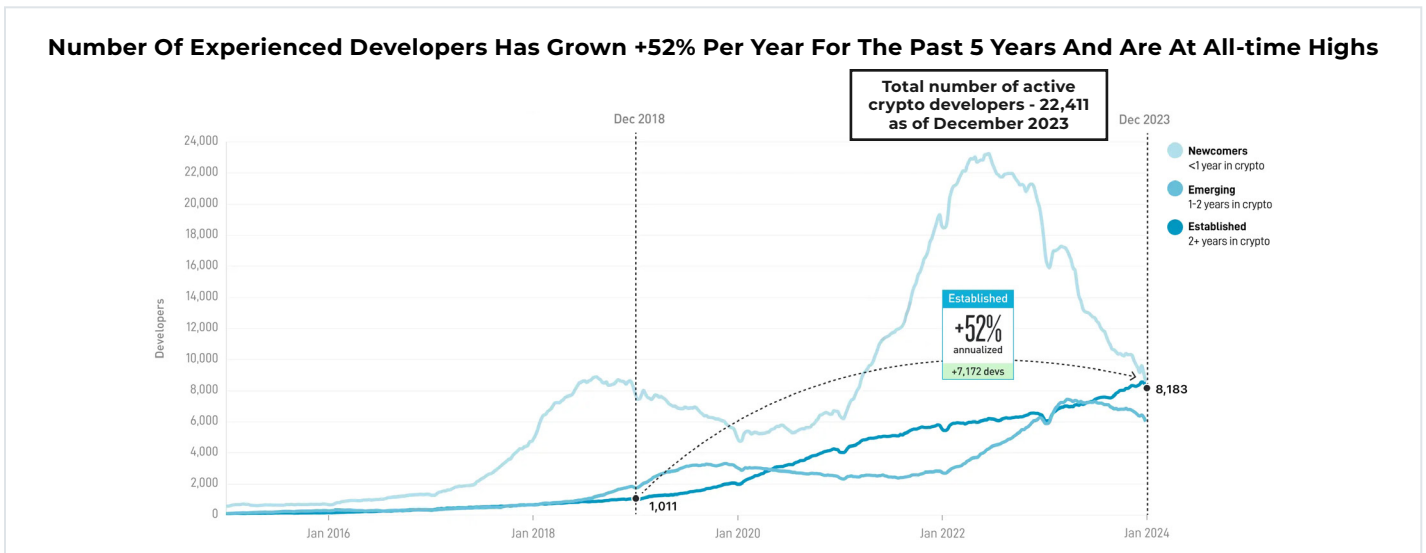
Source: Etherscan and other block explorers from Polygon, Fantom, Celo, Arbitrum, Base, and Optimism, A16z



The number of npm downloads for web3.js, ethers.js, and viem developer libraries during the month.

Source: npm, A16z

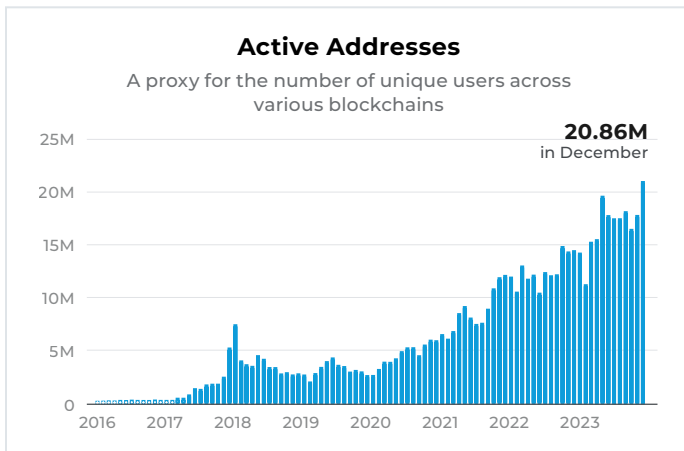
- The overall number of active developers in the crypto space (22.4k as of December 2023) has decreased by 24%, which can be explained by a record number of new developers who joined in 2022 and churned, according to Electric Capital's 2023 Crypto Developer Report. The most valuable segment of developers, those who have been in the crypto field for over two years and who contribute most of the code, has been expanding at a 52% annualized rate over the past five years.
- Developers with more than a year of experience in crypto grew by 16% year-over-year, now making up 63% of all monthly active developers.
- About 30% of developers now support more than one blockchain, a tenfold increase from just 3% in 2015.
- The crypto developer community is becoming increasingly global, with 72% of developers based outside North America. Regions such as South Asia, Latin America, Eastern Europe, Western Africa, and Southern Europe have collectively increased their developer share by 20% since 2018.



Source: Electric Capital's 2023 Crypto Developer Report

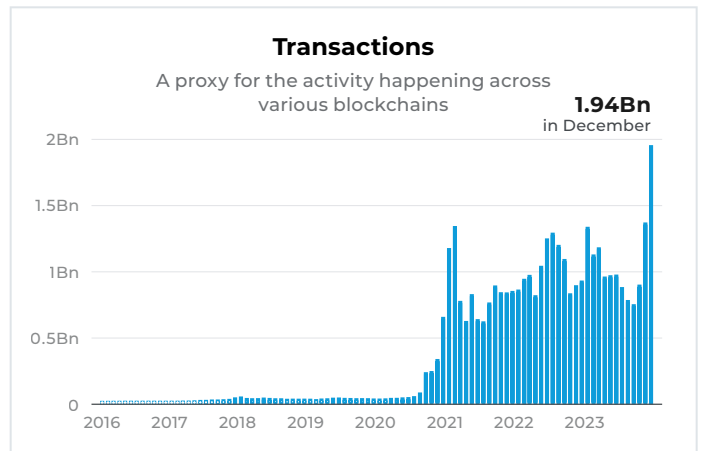
# ADOPTION GROWTH WITHIN THE DIGITAL ASSET ECOSYSTEM CONTINUES

- Active blockchain addresses have, a proxy for the number of unique users across various blockchains, been growing steadily as Web3 adoption increases. The number of active blockchain addresses grew by 48% in 2023 vs. 20% in 2022.
- 2023 was a true year of Layer 2 scaling.
  - Layer 2 (L2) solutions are scaling solutions built on top of blockchains that process transactions off-chain while still leveraging the security of the underlying blockchain. They are being increasingly adopted by a wide range of apps, providing enhanced transaction speeds and lower transaction fees and ensuring the finality and immutability of transactions on the mainnet.
- As scaling technologies supplied more block space and reduced transaction fees, blockchain transactions skyrocketed, as demonstrated by the number of transactions on-chain.
  - Arbitrum, one of the biggest L2s by volume, counted more transactions per day than the Ethereum main layer (L1) most of the time in 2023.
  - In 2023, several new L2s were launched, including Coinbase’s Base, Consensys’ Linea, and Binance’s opBNB.
  - The forthcoming Ethereum Cancun upgrade, EIP-4844, is anticipated to reduce gas fees on L2s even further by 10-100x.
  - In the future, more scalable blockchain infrastructure could unlock new types of decentralized applications.



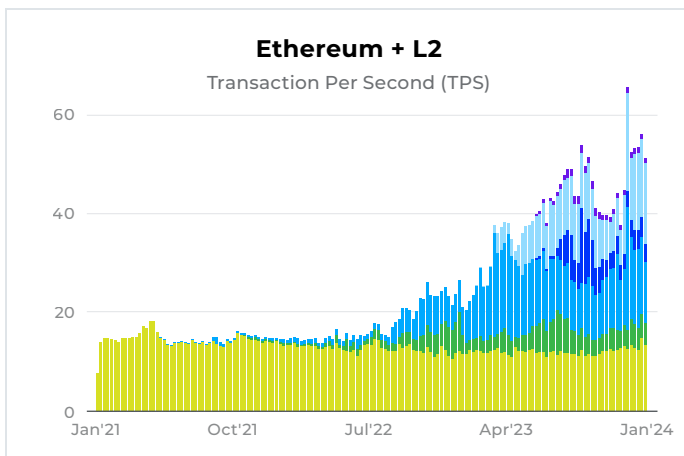
Number of unique active (sending) addresses across all tracked blockchains during the month.

Source: AI6z Nansen Query. Tracked blockchains include Ethereum, Polygon, Solana, Avalanche, Fantom, Celo, Optimism, and Arbitrum.

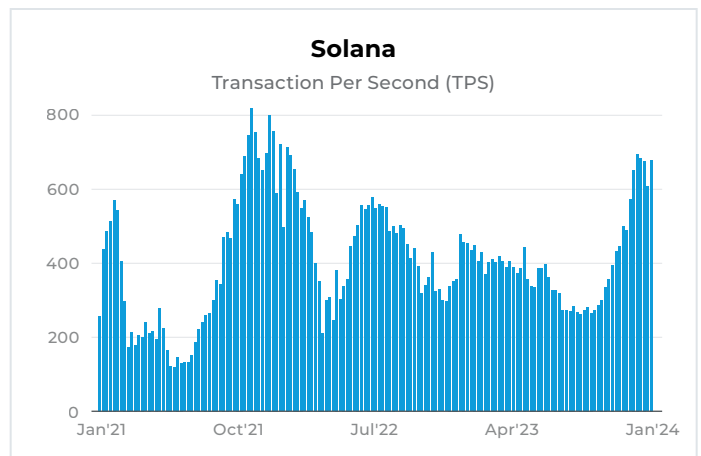


Number of successful transactions across all tracked blockchains during the month.

- Meanwhile, alternative, highly scalable chains such as Solana have experienced a renewed surge of interest and usage in 2023.



Source: Dune Analytics

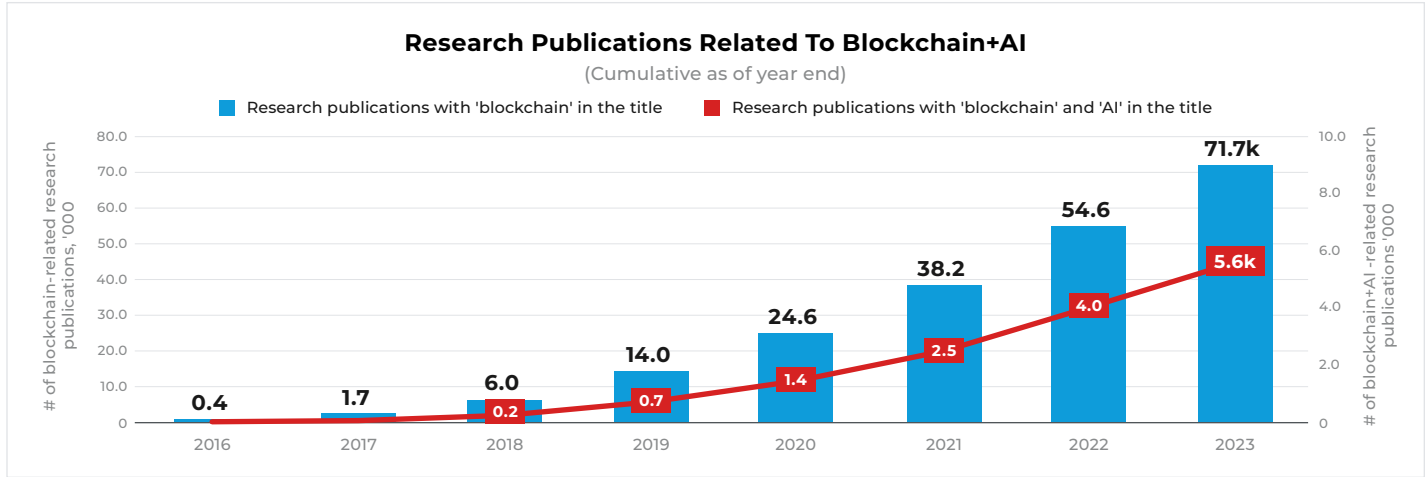


Source: Dune Analytics

# WEB3 AND ARTIFICIAL INTELLIGENCE: THE STATE OF PLAY

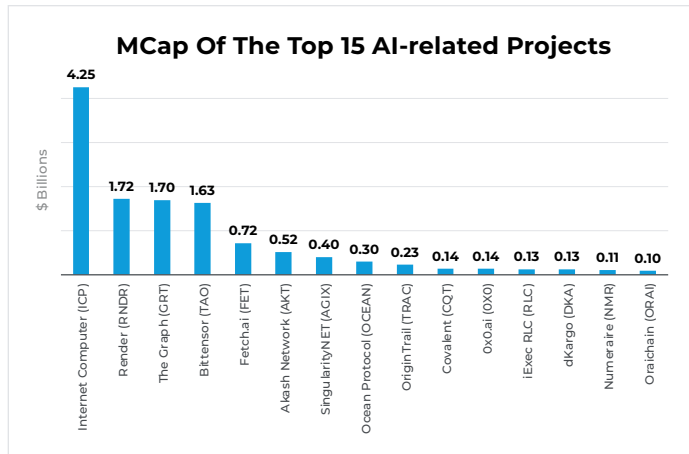
## Look Out For Our Research Report In February 2024

- AI is dominating the narrative as one of the most promising trends of 2024. Although blockchain and AI technologies are currently at different levels of adoption, as the technologies advance, blockchain+AI could complement and elevate each other, resulting in a more diverse and enriched technological landscape.
- The research and development activity in the blockchain+AI field has been rising consistently over the last five years and resulted in 6.9k blockchain+AI -related GitHub repositories and 539k GitHub pull requests, 1.5k filed patents, and 5.6k research publications as of December 31, 2023.<sup>1</sup>



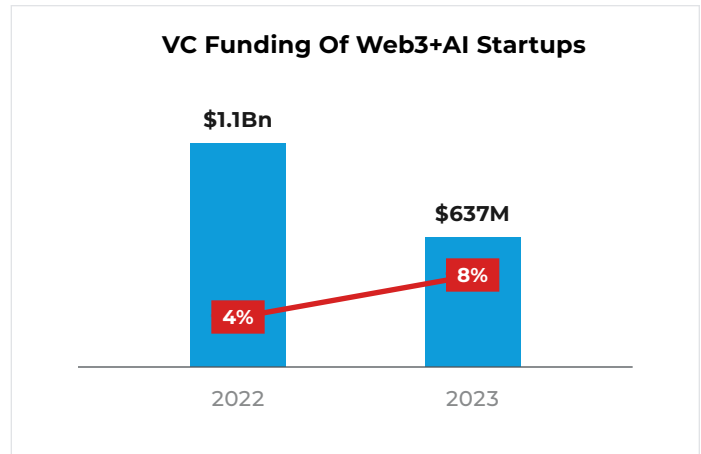
Source: Dimensions.ai

- The market sentiment has been optimistic about the growth potential of AI on-chain. The market capitalization of the top 15 AI-related tokens showed an impressive growth of 443% in 2023 (compared to 108% for the total crypto market capitalization) and reached \$12Bn in as of December 31, 2023.<sup>2</sup>



Note: Top-15 AI tokens include ICP, TAO, RNDR, GRT, OCEAN, AGIX, FET, DKA, NMR, RLC, Ox0, CQT, AKT, TRAC, ORAI, as of December 31, 2023

Source: CoinGecko



Note: AI startups include startups focusing on artificial intelligence, machine learning & big data

Source: Pitchbook

- Despite the slowdown in VC funding this year, Web3+AI was one of the most popular categories among investors in blockchain startups this year, commanding over 11% of the total VC funding in blockchain. Web3+AI startup funding has exceeded \$0.6Bn in 2023.<sup>3</sup>
- Find more insights in our new 30-page research report, **Web3 and Artificial Intelligence: The State of Play**, which will be published in February.

1 - GitHub, World Intellectual Property Organization, Dimensions.ai

2 - CoinGecko, as of December 31, 2023

3 - Pitchbook



## IMPORTANT DISCLOSURES

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