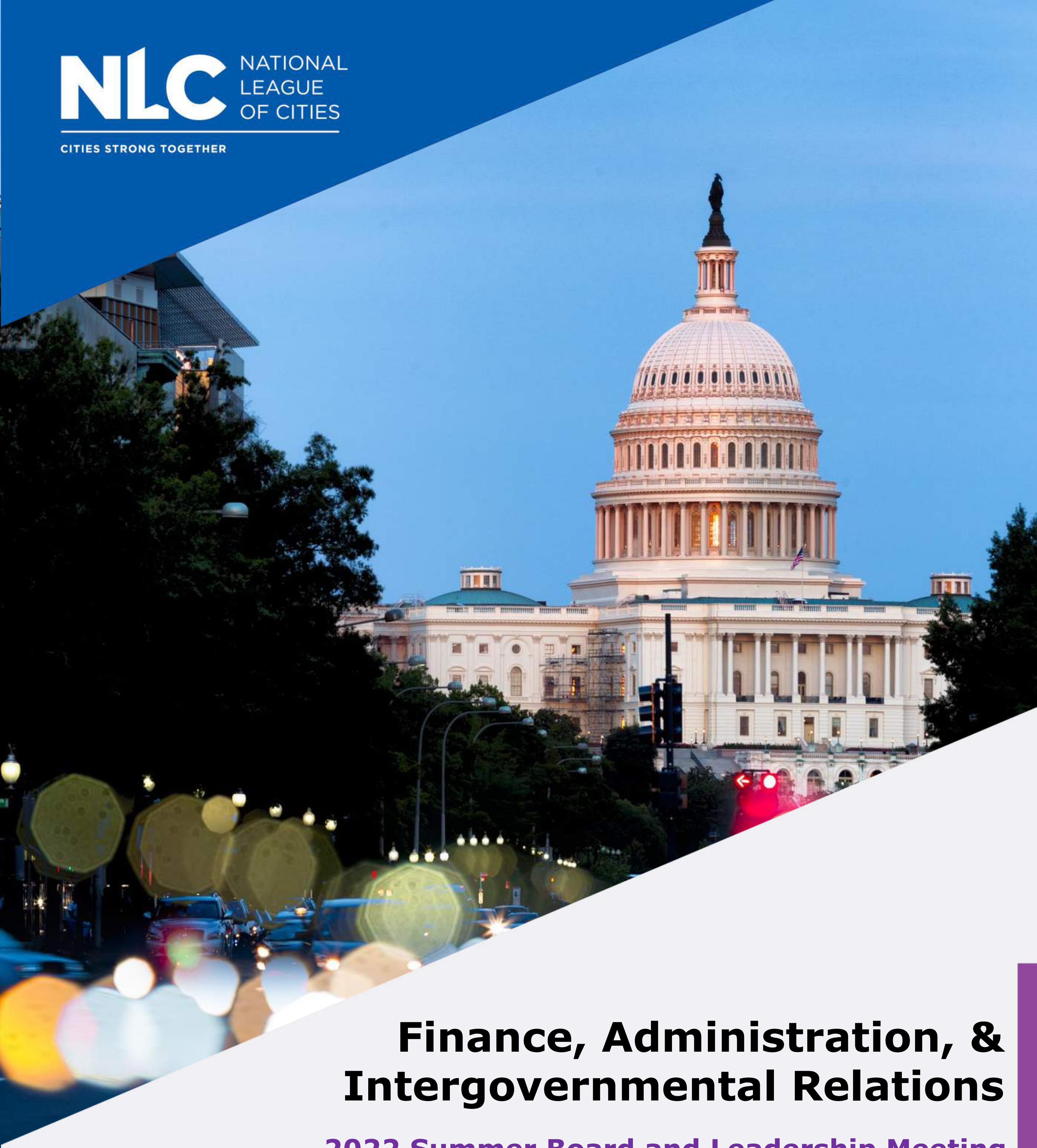
NLC NATIONAL LEAGUE OF CITIES

CITIES STRONG TOGETHER



Finance, Administration, & Intergovernmental Relations

2022 Summer Board and Leadership Meeting
Atlanta, GA
Omni Atlanta Hotel at CNN Center

Thursday, July 28, 2022
1:30-3:00 p.m.

NATIONAL LEAGUE OF CITIES
CITIES STRONG TOGETHER

Summer Board & Leadership Meeting

Agenda: Finance, Administration and Intergovernmental Relations (FAIR) Federal Advocacy Committee
Thursday, July 28, 2022
1:30 – 5:00 p.m.

1:30 p.m. – 1:40 p.m.	**WELCOME, INTRODUCTIONS AND MEETING OVERVIEW** • **The Honorable Matt Orlando, Chair** *Councilmember, City of Chandler, AZ* Councilmember Orlando will welcome the committee, provide an overview of the Committee agenda.
1:40 p.m. – 2:15 p.m.	**SESSION ON CRYPTOCURRENCY AND BLOCKCHAIN** • **Chelsi Bennett,** *Public Policy Lead at Block* Ms. Bennett will talk to the committee about cryptocurrency and Blockchain, explain how the technology works. Cryptocurrency is becoming an increasing popular option of governments to consider accepting tax payments. Block is a leader in the space of cryptocurrency and blockchain. This is something FAIR might want to take a position on later this year or next, so it is good to have a conversation now.
2:15 p.m. – 2:30 p.m.	**FEDERAL ADVOCACY UPDATE** **Mike Gleeson** *Legislative Director for Finance, Administration and Intergovernmental Relations* Committee members will hear an update on timely and pressing issues before Congress and the Administration.
2:30 p.m. – 2:50 p.m.	**HOW CAN WE IMPROVE ENGAGEMENT AND OUTREACH WITH THE FAIR COMMITTEE** • **Honorable Matt Orlando, Chair** • **Michael Gleeson, NLC Staff**

	The FAIR Committee will use this time to reflect on the engagement so far this year and see how the Committee can improve for the rest of the year and beyond. One of the goals of the discussion is figuring out how to grow the Committee and recruit new members.
2:50 p.m. – 3:20 p.m.	**ICE CREAM SOCIAL** This is an opportunity for members of all of the Federal Advocacy Committees to take a break, meet up, and mingle with each other. This will be a fun networking event to get to meet other Committee members.
3:20 p.m. – 5:00 p.m.	**STATE AND FEDERAL POLICY PROPOSALS ON ZONING AND LAND USE POLICIES: A Joint CED and FAIR Committee Policy Discussion** • **Speaker, Atlanta Regional Commission** • **Speaker, Georgia Municipal Association** Local authority over land uses and zoning ordinances have become a critical subject for both parties in Congress for perceived limitations related to housing and economic growth. Several bipartisan proposals have been introduced that would impact or pre-empt local authority over land-use decisions. The White House has also indicated support for zoning reform. NLC policy strongly opposes federal preemption of local authority over land use, but it does not address the other types of federal incentives that could impact local control without preempting it. This discussion will take place to analyze current NLC policy and decide if committee members want to provide more nuanced direction for NLC to respond to such proposals.
5:00 p.m.	**NEXT STEPS AND ADJOURN** • **The Honorable Matt Orlando, Chair** *Councilmember, City of Chandler*
6:00p.m. – 8:30 p.m.	**OFFSITE JOINT EVENT**

Other Events of Note:

- Joint Welcome Reception: Wednesday, July 27th, 5:00 – 6:30 p.m.
- Mobile Workshop (pre-registration required): Friday, July 29th, 8:00 a.m. – 12:00 p.m.

Attachments:

- FAIR 2022 Roster

Don't forget to register for City Summit!
Kansas City, MO
November 16-19, 2021

NLC POLICY DEVELOPMENT AND ADVOCACY PROCESS

As a resource and advocate for more than 19,000 cities, towns and villages, the National League of Cities (NLC) brings municipal officials together to influence federal policy affecting local governments. NLC adopts positions on federal actions, programs and proposals that directly impact municipalities and formalizes those positions in the *National Municipal Policy (NMP)*, which guides NLC's federal advocacy efforts.

NLC divides its advocacy efforts into seven subject areas:

- Community and Economic Development
- Energy, Environment and Natural Resources
- Finance, Administration and Intergovernmental Relations
- Human Development
- Information Technology and Communications
- Public Safety and Crime Prevention
- Transportation and Infrastructure Services

For each of the seven issue areas, a Federal Advocacy Committee advocates in support of NLC's federal policy positions. Members of each committee serve for one calendar year, and are appointed by the NLC President.

Federal Advocacy Committees

Federal Advocacy Committee members are responsible for advocating on legislative priorities, providing input on legislative priorities, and reviewing and approving policy proposals and resolutions. Additionally, Committee members engage in networking and sharing of best practices.

Federal Advocacy Committees are comprised of local elected and appointed city and town officials from NLC member cities. NLC members must apply annually for membership to a Federal Advocacy Committee. The NLC President makes appointments for chair, vice chairs, and general membership. In addition to leading the Federal Advocacy Committees, those appointed as committee chairs will also serve on NLC's Board of Directors during their leadership year.

At the Congressional City Conference, Federal Advocacy Committee members are called upon to advocate for NLC's legislative priorities on Capitol Hill, as well as develop the committee's agenda and work plan for the year. Committee members meet throughout the year to further the plan, hear from guest presenters, discuss advocacy strategies and develop specific policy amendments and resolutions. At the City Summit, committee members review and approve policy proposals and resolutions. These action items are then forwarded to NLC's Resolutions Committee and are considered at the Annual Business Meeting, also held during the City Summit.

Advocacy

Throughout the year, committee members participate in advocacy efforts to influence the federal decision-making process, focusing on actions concerning local governments and communities. During the Congressional City Conference, committee members have an opportunity, and are encouraged, to meet with their congressional representatives on Capitol Hill. When NLC members are involved in the legislative process and share their expertise and experiences with Congress, municipalities have a stronger national voice, affecting the outcomes of federal policy debates that impact cities and towns.

2022 Finance, Administration & Intergovernmental Relations (FAIR) Committee Roster

Leadership

- Chair Matt Orlando, Councilmember, City of Chandler, AZ
- Vice Chair Yvette Colbourne, Vice Mayor, City of Miramar, FL
- Vice Chair Brandon Jones, Deputy Mayor Pro Tem, City of Lewisville, TX

Members

- Thomas Barnhorn, Vice Mayor, City of Seminole, FL
- Sammie Brown, Chief Legislative Aide, City of Riviera Beach, FL
- Debon Campbell, Intergovernmental Affairs Liaison, City of Miramar, FL
- Brian Dehner, City Administrator, City of Edgewood, KY
- Mark Douglas, Commissioner, City of Sunrise, FL
- Curtis Gardner, Councilmember At-Large, City of Aurora, CO
- Carl Geffken, City Administrator, City of Fort Smith, AR
- Duane Haskins, Mayor, City of Burton, MI
- Monica Higgs, Councilmember, City of Seat Pleasant, MD
- John Hines, Councilmember, City of Tacoma, WA
- Christopher Lievsay, Councilmember, City of Blue Springs, MO
- John Link, Mayor, City of Edgewood, KY
- Patricia Lockwood, Mayor Pro-Tem, City of Fenton, MI
- Helen Moise, Councilmember, City of Arlington, TX
- Angela O'Brien, Chief Strategy Officer, City of Roanoke, VA

- Sue Osborn, Mayor, City of Fenton, MI
- Timothy Rohr, City Attorney, City of Lenoir, NC
- Francine Scott, Councilmember, City of Augusta, GA
- Kyle Shephard, Director of Intergovernmental Relations, City of Orlando, FL
- Mark Shepherd, Mayor, City of Clearfield, UT
- Julie Spilsbury, Councilmember, City of Mesa, AZ
- Steve Wright, Council President, City of Seaside, OR
- Ronaldo Fierro, Council Member, City of Riverside, CA

The Harvard Gazette

BUSINESS & ECONOMY

8:10

So what happened to crypto?

Illustration by Oliver Burston

Business professor looks at digital currency plunge, upcoming global regulations, why technology isn't going away anytime soon

Christina Pazzanese
Harvard Staff Writer
July 13, 2022

Recent high-profile financial meltdowns at Bitcoin, Celsius, and Terraform Labs, which together wiped out hundreds of billions in market value, helped trigger a flight from the cryptocurrency market, driving its value from $2.9 trillion last fall to less than $900 billion today. This “crypto crash” has reinforced the perception of critics that markets for the digital currency — used primarily as an investment vehicle as it is not widely accepted as payment for goods and services — are little more than global casinos operating with virtually no rules or accountability.

Scott Duke Kominers ’09, A.M. ’10, Ph.D. ’11, is a professor of business administration at Harvard Bu School and a faculty affiliate of Harvard’s Department of Economics and the Harvard Center of Mathematical Sciences and Applications. Kominers spoke to the Gazette about why the crypto market has plunged in value recent months and how a tide of upcoming international regulation could affect the market. The interview has been edited for clarity and length.

Q&A
Scott Duke Kominers

GAZETTE: What set off the cryptocurrency slide?

KOMINERS: For the past six months, we’ve been tilting into a state of overall financial uncertainty. Crypto assets are very volatile, in part because there’s so much uncertainty about which crypto technologies are likely to be the most useful in the long run — for example, which ones the market may coordinate on for mediums of exchange, and a lot of the applications are technological in nature and novel (or at least unproven). And so, there’s a lot of uncertainty and a lot of the value of return is downstream, just like with tech companies.

Note there’s been a broader pullback for tech companies. A lot of tech firms make big investments in growth upfront, and then the payoff is long-term in the future. In our current macroeconomic climate, it’s harder for them to find money for those sorts of investments, and so that type of business can get more difficult to operate.

Crypto can have that same dynamic. On top of that, it’s more uncertain which technologies are going to be long-run successful. And then, on top of that, there’s the speculation attached to new asset classes and similar. And so, there’s a lot of uncertainty around crypto; and in times of overall financial market uncertainty, people pull away from riskier assets.

At the same time, a lot of the basic technology investment and entrepreneurship in crypto is still going on. We saw this with previous crypto cycles as well. In late 2017-2018, there was a significant downturn, and many of today’s top crypto companies emerged out of that. So, I think from an entrepreneurship perspective, there’s a lot of teams still building, and there’s an opportunity here when things are a little bit less crazed, when there’s less attention and especially energy around speculation and trading — this gives an entrepreneur more time to focus and actually develop their product carefully without constantly having to face the market.

" … it's still really difficult to figure out how to pay taxes on your crypto assets even if you understand precisely what they are," said Scott Duke Kominers. File photo by Rose Lincoln/Harvard Staff Photographer

GAZETTE: In November, the global crypto market capitalization was $2.9 trillion. Today, it's $870 billion, according to CoinMarketCap. Bitcoin, the oldest, most established cryptocurrency, has fallen over 70 percent in value during that period. What changed?

KOMINERS: There was still uncertainty. We were just in much more of a financial boom and a crypto boom, specifically. Even in that period, the market prices of various cryptocurrencies were moving up and down — massive swings — 30 percent swings within a week, sometimes. I advise a bunch of entrepreneurs and the feeling of many at the time was that it was very difficult to be building in that environment because things were changing so rapidly, and there was so much attention and pressure from the boom cycle. When all of that slows down, it washes out a lot of the projects that in one way or another weren't sustainable. That means there has been lost value — there have been losses for the entrepreneurs; there are losses for the investors. And that percolates back to retail investors, as well.

But at the same time, the entrepreneurs who are still out there swinging are getting a lot done and creating a lot of value. And remember: not all crypto products are purely financial. For example, many are more consumer-facing products like systems for coordinating group decisions or managing event tickets. The long-run view is that there is real fundamental technological value here, and so what really matters for the market is whether we can realize that value through entrepreneurship and supporting regulation. And I think the current environment is one in which we have a lot of potential to do that.

We still don't know what the long-run, successful business models and infrastructure solutions are going to look like. We don't know if they're the things we have right now, in some variation, or whether there'll be completely new platforms and crypto products. In the early days of the internet, a lot of the platforms and business models didn't survive. What I'm really interested to see is which crypto projects come out of this "bear" market phase much stronger.

GAZETTE: The flurry of bad news involving high-profile firms like Bitcoin, Terra, and Celsius has renewed calls for regulators to protect consumers from fly-by-night currency operators, scammers theft. How vulnerable are crypto investors, particularly the retail-level amateur investors?

KOMINERS: I definitely think there's a need for more consumer protection in this space across the board. There needs to be more transparency and not just transparency at the abstract level, but the technology needs to be made transparent for consumers in ways that they can understand. This is a problem across crypto, and it's one that companies are starting to try and solve. It's very hard for a consumer to be managing their own position in the central crypto market with current tools. As a result, if you're a retail consumer, you often end up on one of these intermediated platforms where the lack of transparency means you may not understand what's going on. As we've seen, people may choose to enter into these platforms during a boom, and it's very exciting. But if you don't understand the risk you're taking on, that can be really harmful as soon as the state of the market changes.

There needs to be much more transparency and better messaging and clearer definitions of the different asset classes. Everything from taxation — it's still really difficult to figure out how to pay taxes on your crypto assets even if you understand precisely what they are — to information that would help people make assessments about which markets they want to be in and how much risk they're taking on. Highlight it in the same way that we provide information about other asset classes and products. There aren't unified disclosure standards for crypto platforms; there aren't standardized disclosure rules or formats. And it's two layers of non-transparency: You both don't necessarily have a clear sense of what platforms may be doing, and then on top of that, a consumer might not understand the aggregate volatility in the crypto market and so they can't make an overall risk assessment.

GAZETTE: This week, a panel of banking regulators and treasury officials from the G20 countries said it will put forward "robust" new regulations in October in response to the "intrinsic volatility and structural vulnerabilities in crypto currencies. Earlier this month, the U.S. Treasury Department presented to President Biden what it called a "framework" for overseeing digital financial assets across the government and internationally, while the European Union and European Parliament agreed to sweeping new crypto rules that include a licensing requirement that's expected to go into effect next year. How is this wave of regulation going to affect the market?

KOMINERS: Some regulation is probably good for the industry because in order for crypto to reach mainstream adoption and use, it needs to be in a market and technology context where the consumer can gain access and do so in a way that is valuable and much lower risk than today. Frameworks, when they're developed well and respond directly to the types of problems the market is seeing, can make a market more efficient and more valuable for everyone to participate in. So, some degree of improved structure and framework-building is good. The challenge, of course, is that these crypto currencies and other crypto assets are often simultaneously financial assets and tech platforms — which means that you have to think about two different categories of regulation working in concert with each other.

On the one hand, licensure and vetting of an asset to be able to trade it in some centralized system sounds like a really good thing from a stability and oversight perspective. But at the same time, that very much limit competition. If it's hard to introduce new types of tokens, then you may block inn and you reduce the possibility of new platforms emerging, which means you don't necessarily get t most efficient technology. These are hard tradeoffs. One of the big challenges we've faced in regulating crypto to this point, and we'll face going forward, is balancing the need to achieve platform stability with the need to maintain platform competition and interoperability.

Editor's note: Kominers is a research partner at a16z crypto, and advises a number of marketplace businesses and crypto projects. He holds some crypto assets — especially a variety of non-fungible tokens.

2:45

CRYPTOCURRENCY

Bitcoin tops $22,000 as crypto market hopes contagion and shakeout is over; ether jumps 9%

PUBLISHED MON, JUL 18 2022•7:35 AM EDT UPDATED 2 HOURS AGO

Arjun Kharpal
@ARJUNKHARPAL

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BREAKING NEWS

KEY POINTS

- Bitcoin bounced above $22,000 on Monday, hitting its highest level in more than a month.
- Other cryptocurrencies also bounced with ether up more than 10% versus the price 24 hours ago and Polygon's MATIC token up 21%.

2:45

Bitcoin and cryptocurrency prices have been under pressure in 2022 with traders feeling the fallout from a number of major collapses in the industry.

Selim Korkutata | Anadolu Agency | Getty Images

Bitcoin bounced above $22,000 on Monday, hitting its highest level in more than a month as the cryptocurrency market held out hope that the contagion and shakeout over the past few weeks is

BREAKING NEWS

The world's largest cryptocurrency was trading around $22,135.30 at 8:57 a.m. ET, according to CoinDesk data, up around 4%. Bitcoin traded as high as $22,493.61 in the past 24 hours, the highest since June 16.

Other cryptocurrencies also bounced with ether up more than 9% versus the price 24 hours ago and Polygon's MATIC token up 16%.

MARKETS CNBC TV WATCHLIST MENU

2:45

But investors are also watching whether the carnage over the last few weeks, which has seen bitcoin near 70% off its all-time high that was hit in November and billions of dollars wiped off the market, might be over.

The price crash has brought the downfall of several high-profile companies in the space, most notably hedge fund Three Arrows Capital and crypto lender Celsius, both of which have filed for bankruptcy.

These collapses have caused contagion across the industry and seen other associated companies come under pressure.

BREAKING NEWS

caused by the huge amounts of leverage and borrowing that has taken place in this latest crypto cycle. Three Arrows Capital for example took out loans it was unable to pay back once the crypto collapse took place. Celsius, which offered customers yields over 18% for depositing their digital coins, took on high risk trading activities to earn the interest to try to give back to its users.

Crypto companies have been selling off whatever assets they have to try to meet their liabilities

2:45

"Given the severely negative performance in Q2, it is unsurprising that a 'relief' bounce has occurred. We believe the market will continue range-bound over the coming months," Moreno said.

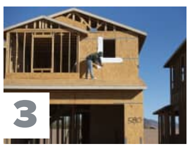
BREAKING NEWS

In this article

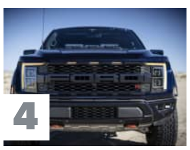
MATIC.CM= +0.18 (+22.97%) | ETH.CM= +137.52 (+10.21%) | BTC.CM= +1,214.76 (+5.78%)

2:45

demand ones



Homebuilder sentiment takes historic plunge in July as buyers pull back



Ford unveils new F-150 Raptor R pickup with 700 horsepower

Russia orders troops to intensify operations; Zelenskyy suspends top officials after treason fears

2:45

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THE FUTURE OF WHAT'S NEXT

Bitcoin's Intensive Energy Demands Are Sparking a Crypto Backlash

The enormous energy demands of Bitcoin mining are prompting some U.S. municipalities to impose moratoriums or outright bans on cryptocurrency facilities. Bitcoin mining activity, critics warn, is leading to electricity price hikes and a revival of dirtier sources of power.

July 17, 2022 • Judith Lewis Mernit, YaleEnvironment360

The Greenidge Generation bitcoin mining facility, in a former coal plant by Seneca Lake in Dresden, N.Y., is shown in this photo from July, 2021. On June 30, 2022, New York environmental regulators denied the plant's application for a ...ir permit, citing concerns about greenhouse gas emissions. Photo by N. Scott Trimble and Scott Schild ...an Trimble/TNS

Editor's note: This article was originally published by Yale Environment 360*. Read it here.*

The first time Jackie Sawicky learned that a Bitcoin mining operation was coming to Corsicana, a rural Texas city 60 miles south of Dallas, was on April 27, w she happened upon a Facebook video of a meeting at the local public librai e featured speaker was Chad Everett Harris, the upbeat executive vice presic f Riot Blockchain, a Bitcoin mining company based in Castle Rock, Colorado. Bald and comfortably plump, Harris wore a suit jacket and open-collared shirt over blue jeans and delivered his message with the verve of a motivational speaker.

"We're coming to Corsicana to build the largest [Bitcoin mining facility] in the world," Harris announced, describing the four-building, 400,000 square-foot complex that will occupy 265 acres with number-crunching machines. "We turn energy into opportunity."

Riot already operates the largest Bitcoin mine in the country in Rockdale, Texas. When someone in the audience asked Harris what drew him to Corsicana, the seat of Navarro County (pronounced "Nah-*verr*-o" in local parlance), he answered without hesitation. "The Navarro Switch!" he said, referring to part of the 192-mile, 345-kilovolt transmission line that moves power from West Texas to eastern parts of the state, where demand is high. "And water," he added. "You can pay a lot to bring power somewhere. But you can't get water."

"He literally told us," Sawicky says, "that he was coming to exploit our resources."

By some estimates, the world's Bitcoin mining operations had an annual energy budget equal to the nation of Argentina.

To some people, Bitcoin — the most valuable and well-known of the 10,000 or so currently circulating cryptocurrencies — is nothing more than a pyramid scheme; to others, it represents the future of money: decentralized, unregu and tracked on a virtual ledger in the digital cloud that everyone can inspe known as a blockchain. But its production consumes dizzying quantities of electricity. In May of 2022, the world’s sum total of Bitcoin mining operations had an annual energy budget nearly equal to the entire country of Argentina, or the Czech Republic, or, according to Cambridge University’s Bitcoin Electricity Consumption Index, all the tea kettles in England boiling water for 26 years.

In warmer climates, cryptocurrency-mining by the Bitcoin method, known as “proof of work,” typically needs water to cool those machines running fast and hot as they play the Bitcoin lottery (Riot says it will use a new technology in Corsicana that reduces water use). Proof-of-work mining is essentially a high-stakes guessing game: Computers spend all day throwing out random 64-digit numbers until one matches the “right” number, as determined by Bitcoin’s consensus-managed protocol. On the worldwide network of Bitcoin servers, “you have 200 quintillion guesses every second of the day nonstop,” explains Alex de Vries, a researcher at the School of Business and Economics at the Vrije Universiteit Amsterdam. “And even despite that, only one machine gets it right every 10 minutes.”

The correct answer gets logged on Bitcoin’s blockchain, and the winner gets a reward: 6.2 Bitcoins. That’s not as much money as it used to be: In the coin’s current slump, each coin nets about $20,000, down from a high in November 2021 of just under $68,000.

An aerial view of the Whinstone US Bitcoin mining facility in Rockdale, Texas, on Oct. 9, 2021. The long sheds at North America's largest bitcoin mine look endless in the Texas sun, packed with the type of machines that have helped the U.S. to become the new global hub for the digital currency. (Mark Felix/AFP/Getty Images/TNS)
MARK FELIX/AFP/TNS

Due to its high demand for electricity, proof-of-work cryptocurrency mining has not been welcomed in every corner of the world. Miners seek cheap energy to maximize their profits, but their energy-intensive activities typically drive electricity costs up for everyone. Even when mining plants run on renewable energy, critics say, they often exploit existing clean energy resources at the expense of ordinary consumers, who are then forced to buy more expensive, and often dirtier, power.

In Bonner, Montana, a small city in Missoula County, the Bitcoin company HyperBlock set up in 2016 and almost immediately began cutting into the community’s supply of hydropower from the Salish-Kootenai Dam; County Commissioner Dave Strohmaier called the plant’s energy use “grotesque” and equal to as much as one-third of the county’s household demand. HyperBlock went bankrupt when Bitcoin plummeted at the start of the COVID pandemic. The county subsequently enacted a first-of-its-kind zoning ordinance requiring, among other things, that cryptominers supply their own, new renewable energy sources.

A similar scenario has played out in upstate New York. The region initially cryptominers with its abundant supply of cheap hydropower electricity fro e 2.6 gigawatt Niagara Power Project. In 2017, when the Bitcoin company Co t set up in the vacant space behind the Family Dollar Store in Plattsburgh, a city of less than 20,000 residents, electricity costs were one-third of the national average. Bitcoin miners had registered as industrial consumers, says Colin Read, a professor of economics and finance at the State University of New York, Plattsburgh, who was also Plattsburgh's mayor at the time. "And our industrial rate was less than 2 cents per kilowatt hour, which might be the lowest in the world."

But Plattsburgh, which manages its own municipal utility, also has a monthly quota for electricity use. If the city exceeds that quota, it has to go looking elsewhere for electricity, forcing everyone's utility bills up. In the winter of 2018, residents who heated their homes with electricity saw costs rise 30 to 40 percent, according to Read.

The United States is now home to 40 percent of the world's crypto-mining business, with one-quarter of that in Texas.

Plattsburgh quickly imposed a moratorium on new crypto-mining operations while city officials figured out how to make it more efficient. "We imposed a regulation that says Bitcoin miners have to recycle a share of their heat," Read says. After that, "they simply weren't interested in coming here anymore. They always migrate to the places with the least regulation."

Bitcoin mining has faced similar challenges in other countries. China, despite e being the world's largest supplier of the application-specific integrated chips d in crypto-mining, declared all virtual currency activities illegal in the fall of

2021, in part because the mining "produces high carbon emissions." (The country's central bank also wants to develop its own digital coin.) Iceland's national power company, Landsvirkjun, which once attracted cryptocurrency miners with its climate-friendly geothermal energy, began denying power to new miners in late 2021. Even Iran, where the oversight-free nature of peer-to-p currency had enabled entrepreneurs to dodge international sanctions, fou crypto-mining so burdened its grid that the government was forced to ban first for four months beginning in May 2021, then again the following December, as heating demands strained its electricity supply.

Neither energy consumption nor water nor Bitcoin's volatility have deterred the elected leaders of Texas, who have welcomed the industry with effervescent enthusiasm. "Blockchain is a booming business Texas needs to be involved in," Governor Greg Abbott tweeted last summer after signing into law a bill recognizing cryptocurrency in the state's commercial code. (Texas was the second state to do so, after Wyoming.) And the miners have come, reveling in the state's wide-open spaces, where the rattling fans that cool their hard-working rigs can operate without disturbing the neighbors, and abundant cheap energy keeps overhead low. Whereas once China hosted 75 percent of the crypto-mining business, now the United States is home to 40 percent of the activity, and one-quarter of it happens in Texas.

1:08

Bitcoin cryptocurrency mining farm. AGNOR MARK/agnormark - stock.adobe.com

Three days after Harris's announcement at the Corsicana library, Jackie Sawicky founded Concerned Citizens of Navarro County to marshal opposition to Riot Blockhain's plans for Corsicana. More than 600 people have signed a petition to stop the mine, and the group has more than 500 members on its Facebook page, where Sawicky and others post news stories about their state's grid and water woes.

"We're going to be paying increased electricity bills to upgrade ERCOT's grid to accommodate these places," she says, referring to Texas's independent system operator, the Electric Reliability Council of Texas. The grid notoriously slumped under the strain of winter storm Uri in 2021, cutting power to more than 4 million homes and businesses, many of which relied on electricity to heat their buildings. Hundreds of people died from extreme cold exposure or the failure of medical equipment.

Harris has insisted in news stories that mining only uses excess power when demand is light; when the grid is overloaded, ERCOT issues them credits for shutting down, which miners can do within minutes. In that way, he says, Riot's participation in "demand response" can actually stabilize ERCOT's unsettled and isolated grid.

That's at least partially true, says de Vries, the Dutch researcher. But the company's participation in demand response isn't exactly altruistic. Riot Blockchain's filings with the Securities Exchange Commission, he points ou e plainly that the company will pay a mere 2.5 cents per kilowatt hour for its electricity, a full 10 to 11 cents less than the going residential rate. That figu "represents our contractual cost of power," confirms Trystine Payfer, spokesperson for Riot Blockchain, minus the credits the company earns for participating in the utility's "demand-response" program. That program is a sweet deal: It means that, when electricity supply is tight and Riot voluntarily shuts down, the company earns credits for power. If electricity prices shoot up to $9 per kilowatt hour, as they did during 2021's winter storm, it might be more profitable to unplug from the grid than to keep mining Bitcoin.

Some Bitcoin miners have tried to eliminate their pressure on utilities by buying up fossil-fuel plants to power their activities.

"Our utility provider does not actually pay us the credited amount each month," Payfer stresses, "rather, we have the right to apply the credits toward future [bills]."

Nevertheless, de Vries argues, it's hard to see how that won't drive prices up for everyone. The utility still has to buy the power, he notes, and the credits it issues under the demand-response program come from the same pool of money other customers fund when they pay their bills.

"We have a saying here in Texas," Sawicky says. "Don't piss on my boots and tell me it's raining. And that's pretty much what's going on."

Not every community has fought Bitcoin mining the way Sawicky's group has. Blockchain's Rockdale facility, initially built on 100 formerly forested acres r the former Alcoa aluminum plant, has by most accounts been a boon to the community, which had long been a company town revolving around the now-shuttered factory. “We rebuilt the animal shelter,” Harris said at the Corsicana launch meeting. “When I learned kids didn’t have lights in their parks, we put lights in the ball fields. For a year, we rented an entire hotel.” Bitdeer, another Bitcoin mining company, set up shop nearby and bought emergency ventil equipment for Rockdale’s volunteer firefighters.

1:08

But Corsicana, Sawicky argues, is different. “People came to Navarro County for farming and ranching and open space. We have wildlife. We have two pair of nesting bald eagles and tons of migrating birds. I worry about all of them.”

When a bitcoin mining company moved into Plattsburgh, New York, to take advantage of the city's low-cost energy, residents who heated their homes with electricity saw costs rise 30 to 40 percent. (Shutterstock)

Mostly she worries about electricity prices. Electricity prices in Texas are already 0 percent over what they were a year ago. “We have a 15 percent poverty rate in Navarro County,” Sawicky notes. “We can’t pay more for electricity than we already do."

Some ambitious Bitcoin miners have tried to eliminate their pressure on utilities by buying up their own fossil-fuel plants to power their mining activities. The coal-fired Greenidge power plant in New York's Finger Lakes region, decommissioned in 2010 and revived seven years later as a gas-fired plant, in 2021 became a gas-powered Bitcoin mine; 120 miles west, in North Tonawanda, Canadian cryptominer Digihost intends to inhabit a still-operational gas-fired power plant using the plant's power to mine its coin.

But more such projects in New York State could be in peril if Governor Kathy Hochul signs a pending bill instituting a two-year moratorium on new fossil-fueled proof-of-work crypto-mining in the state. The bill, passed by New York legislators on June 3, is designed to give the state time to evaluate how the technology fits within the state's 2019 climate law, which commits New York to 100 percent zero-emissions electricity by 2040. The state law would be the first in the country restricting cryptocurrency mining.

Read doesn't think the bill does enough. "Even if Bitcoin miners aren't using hydrocarbons," he says, "they're displacing renewable energy" that would be used for other purposes. "And there's no easy way to measure that." Bitcoin, he says, will continue to increase the use of fossil-gas-fired power in the state, regardless of whether miners use clean energy or not. Nor has Governor Hochul committed to signing the legislation. Both she and New York City Mayor Eric Adams, who has asked her to consider a veto, have received significant donations from the crypto industry.

Some companies plan to capture methane from oil and gas drilling and divert it to power plants dedicated to Bitcoin mining.

There are ways to reduce the energy use and, consequently, the climate impact of cryptocurrency mining. Some energy companies have developed plans to capture fugitive methane from oil and gas drilling and divert it to electricity plants dedicated to Bitcoin mining. Crusoe Energy has already begun such operations in North Dakota and Colorado and plans to expand to Texas and New Mexico. Another company, the Casper, Wyoming-based JAI Energy was specifically founded to take advantage of waste gas to mine Bitcoin. The process could theoretically be a net win for the climate, as methane from the oil fields is typically ether flared or vented, releasing fast-acting planet-warming gases the atmosphere.

An even better alternative, Read says, is to trade proof-of-work mining for another process, known as "proof of stake." It doesn't use exorbitant amounts of energy, because it doesn't involve gazillions of computers taking 200 quintillion stabs per second at a random number. "Instead of trying to win the lottery in 10 minutes," he explains, you put down a large deposit proving you have a stake in the outcome. "You ensure you don't corrupt the system" when you verify an entry on the cryptocurrency's blockchain. If you fail to verify properly, you lose your investment.

Proof-of-stake "means you can have everything in crypto without having all these environmental problems," Read says. Several currencies, such as Cardano and Peercoin, use proof-of-stake exclusively; Ethereum, the second most-valuable coin next to Bitcoin, is in the process of transitioning to proof-of-stake.

In fact, "almost all cryptocurrency currencies are mined with proof-of-stake right now," Read says. "We just don't hear about it so much because Bitcoin represents 99 percent of all capitalization in cryptocurrency." There may come a day when you get auto and home loans on a smartphone with decentralized, digital currency. But that currency probably won't be energy-devouring proof-of-work Bitcoin.

"Bitcoin," Read says, "is cryptocurrency's Model T."

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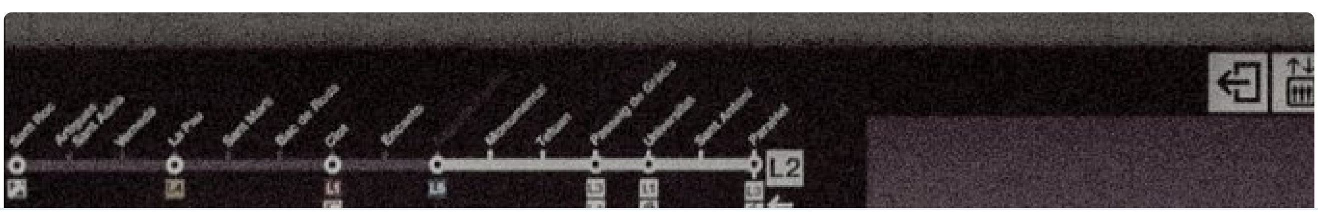

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Crypto Town

Municipal mining rigs! Press conferences in the metaverse! Bitcoin utility bills! cryptocurrency revolution has come to local government. But for what?

BY JAKE DEAN AND NITISH PAHWA

JULY 07, 2022 • 5:50 AM

Photo illustration by Slate. Images by Tevarak/iStock/Getty Images Plus, wanwi17/iStock/Getty Images Plus, and LeoTroyanski/iStock/Getty Images Plus.

If there's a future for crypto in the governance of American cities, the most prominent example is hardly inspiring confidence.

Miami has positioned itself as the country's (mainland) cryptocurrency paradise. Mayor Francis X. Suarez repeatedly emphasizes his crypto bona fides, from taking his salary in Bitcoin to calling for the United States to incorporate blockchain technology into every level of government at a recent Bitcoin convention in Miami. The centerpiece of this effort is MiamiCoin, a cryptocurrency that the city has described as—deep breath—"programmable city-based tokens that unlock a new community-driven revenue stream for local governments while bringing collaborative technology to its citizens and ecosystem of stakeholders."

MiamiCoin was issued by a company called CityCoins. Like other cryptocurrencies, it through a process of mining—in this case, on the Stacks network, which is built on th Bitcoin blockchain. Basically, Stacks coins are funneled into the CityCoins protocol by miners, and 30 percent of those coins go to participating cities, like Miami. (In theory, you can also build apps on top of the CityCoins protocol that would also benefit cities.) In a sense, then, MiamiCoin is a huge success, because it's netted the town millions.

But MiamiCoin has lost nearly 90 percent of its value since launching in early August and was trading for $0.00071 as of this writing. In other words, Miami can be seen as having left crypto fans holding the bag. Damning reporting by Quartz also turned up emails that demonstrate a possible breach of federal regulations; in one missive, a CityCoins representative told Suarez's chief of staff that the mayor might have tripped "a few regulatory wires." Third, there are concerns over the anonymity of the users and the possibility that criminals might be laundering money while Miami profits.

Meanwhile, Suarez has been a lot quieter about crypto and the blockchain on Twitter for the past two months, in which crypto prices have plummeted. Still, Suarez remains as much a tech evangelist as ever, and says he's still taking his city paycheck in Bitcoin even though its value has cratered.

Was all of this wise? We'll see. Yet Miami isn't alone in trying to bring some laser-eyed panache to the typically vanilla work of local governance. A wave of smaller cities has begun to accept cryptocurrencies for payments, create their own NFT projects, and even install crypto mining operations. Their efforts, if anything, display an openness to technological innovation in cities of various locales and political contexts. What they don't show is whether this particular innovation is able to accomplish much of anything at all.

* * *

The town that calls itself the "biggest little city in the world" is trying to create the "biggest little blockchain." Reno, Nevada, Mayor Hillary Schieve—who helps lead the Conference of Mayors along with Francis Suarez—is a longtime crypto enthusiast who sees so-called Web3 technology as a possible feather in the city's already-ostentatious cap.

One of Schieve's projects is in the NFT space, involving a piece of art created for Burning Man 2016: *The Space Whale*. "We ended up buying it" last year, Schieve told us, "and we wanted to do an NFT. It's the first time that as a citizen you could own a piece of public art—this is a way all of us can have ownership. And that money would go back to public arts programs." That vision to crowdfund public art has taken effect: While the city alrea allocates money for public art through hotel taxes, you can now buy one of 1,000 lim edition *Space Whale* NFTs through City Key Art for the price of a single Benjamin.

Reno officials also see Web3 as an opportunity to improve government operations. The city is moving its historic registry records system onto the blockchain, the permanent virtual ledger on which the crypto economy runs. In effect, this creates a public, verified record of historic property requests and allows city residents to file for Certificates of Appropriateness to modify these properties through the web. Community liaison Nic Ciccone explained to us that "Much of our historic registry files are in banker boxes or file cabinets—tucked away, not easily accessible. So we were looking at ways to make these digitally accessible, and blockchain just happened to be one of those." The city has partnered with BlockApps, which is providing the service to Reno for free. Ciccone specifically noted that smart contracts and the immutability of the blockchain are incredibly important for improving the efficiency of historic records requests: "There are so many systems and departments that all have to work together when it comes to municipal government—approving different permits and certificates of appropriateness. So having one place where everyone is working on the same thing and can see the exact progress of the project is so valuable." However, it remains unclear how blockchain systems improve accessibility when it comes to public service, considering the intensive process that goes into placing a record on the blockchain and the security issues that also arise when more people join the system. As for cross-department administrative efforts, there's always cloud computing, which is still extremely popular at all levels of government.

Plus, not all of Reno's residents may be as familiar with the blockchain. Schieve admits that's been "a challenge, because a lot of people are like, 'What are you talking about, cryptocurrencies? Is that dark money?' I don't think people have been that receptive." She emphasized to us, however, that she views the city's Web3 integration as crucial for its future. "Whenever you are the first that goes out there, and you're talking about new technology and new innovation—I remember when people were like, 'What's a QR code?' You had to educate people," Schieve said. She's hoping to help Reno residents access blockchain processes "as easily as possible," like by giving them the option to purchase *Space Whale* NFTs with a credit card, and then look ahead to more ambitious projects in the metaverse: "I want to do a press conference there."

Reno Mayor Hillary Schieve in 2021. Ty O'Neil/SOPA Images/LightRocket via Getty Images

Still, Reno is planning to take it slow. "A lot of times in the crypto world, there's a lot of hype and a lot of promise, and that's just not the business that we're in," explained Schieve. "I want to actually use the technology and show the great work and innovation Web3 and blockchain can have." For Reno, that innovation should be nothing less than transformative: "If we raise a lot of money in this NFT, that would be great, but I think the bigger win would be to have collections of art all over from every city that's very recognizable. Think about the longevity and education of that aspect. How cool would it be to own part of the Statue of Liberty?"

A Lady Liberty NFT seems far away, but Schieve thinks this project will open the door for new NFT projects in other cities. And if nothing else, she hopes the project will at least shine a light on the arts scene in her city: "With an NFT, it's a way to share this with the world that normally—like, if you'd never been to Reno, you might not even know about the *Space Whale*."

* * *

Reno's colorful embrace of crypto may fit a town best known for tourism and gambling. Other cities mostly just want to use it to collect some bills.

Earlier this year, the city of Chandler, Arizona, announced it would allow residents to pay their utility bills using cryptocurrencies such as Bitcoin or Ethereum through PayPa payment service. The city will actually receive such funds in the form of fiat currenc cryptocurrency is converted to dollars by Invoice Cloud, the Phoenix suburb's payme vendor. Dawn Lang, the city's deputy manager and chief financial officer, has said th meant to eliminate "any market volatility risk for Chandler."

Despite this new commitment to cryptocurrency, Chandler has no plans to expand further. City public information officer Stephanie Romero explains that the impetus for the utility bill decision "was really about customer service," giving residents the flexibility to pay bills how they want. Still, Romero admitted that "We do not expect to see very many customers using this method, but it is an option for them." Chandler bills itself as a "City and Community of Innovation."

Other cities' crypto initiatives are similarly restrained. Scott Conger, the mayor of Jackson, Tennessee, is working to make his city the first in the U.S. to add a cryptocurrency payroll option for employees (in a stunt in New York City, Mayor Eric Adams said he would take early paychecks in crypto, though in fact he was paid in cash and then converted the funds using Coinbase). The state comptroller of Tennessee has argued the idea may violate the Fair Labor Standards Act because the price fluctuations of crypto could run amok of the city's fiduciary responsibilities. Still, Conger has attempted to push forward with his support for the plan through a third-party conversion service.

More ambitiously, Fort Worth, Texas, became the first city in the U.S. to run its own Bitcoin mining operation in late April, with machines sponsored by the Texas Blockchain Council. "It communicates to people that we're a very progressive city with a young mayor, a young council. We're embracing technology and recruiting technology," Fort Worth City Councilman Leonard Firestone told the Fort Worth Business Press.

"Progressive" might be a misnomer when it comes to crypto's techno-libertarian appeal. Among politicians, at least, it's been most readily adopted by Republicans, and the Democrats who have most eagerly embraced crypto aren't exactly the young firebrands of the left. And while Fort Worth's City Council races are nonpartisan, many of Firestone's prominent supporters are conservatives, like former Texas state Rep. Charlie Geren and former Fort Worth Mayor Betsy Price. Really, this sort of adoption could be seen as an attempt to lure crypto companies and traders in the interest of making cities easier to "do business in," as Schieve put it. Certainly, crypto is now just another part of any pro-business agenda.

To some mayors, however, that makes it all the more imperative that liberal Democrats *do* take steps to adopt and champion the tech. At least, that's what the mayor of Portsı New Hampshire—a small coastal town of about 22,000 residents—told us in an inte explaining the need to counter the "libertarian" streak that runs through the state. " Hampshire, we have people who've moved here who don't believe in government—t themselves Free Staters—and the conversation on crypto in New Hampshire has been weighted toward, 'How do we do away with government?' " says Mayor Deaglan McEachern.

14:58

Indeed, Granite Staters who'd like their home to secede from the U.S. have been rebranding their movement with the help of crypto. In 2017 Steven Zeiler, a Bitcoin evangelist, joined forces with longtime libertarian activist Derrick J. Freeman to open up the Free State Bitcoin Shoppe in downtown Portsmouth, offering secession-themed merch you can only pay for in Bitcoin and other digital currencies. The two also printed a brochure deeming the city "Bitcoin Village," claiming "there are more crypto accepting retail shops in Portsmouth, NH than anywhere in the world." (Their shop is no longer open; in 2018, Freeman told a journalist that it "hasn't been as successful as he'd like.")

McEachern, who became Portsmouth's mayor just this year, said he hadn't heard of the "Bitcoin Village" nickname before we asked him about it and dismissed that characterization of his city. However, he said, he is curious about the "decentralized" nature of crypto as a means by which to make government "easier and more effective," in explicit opposition to anti-government Free Staters.

In late March, as the Portsmouth Herald reported, McEachern announced that city residents could now make payments to the government by transferring crypto through PayPal, which the city had already been employing as a revenue-collection tool. "By creating more ways to pay bills, we're enabling greater participation," especially from those without bank accounts, McEachern told local media. PayPal converts crypto transactions into U.S. fiat currency before delivering the money to the city, ensuring crypto-market volatility won't dent city funds, like in Chandler. The purpose of this pilot program is to find out if crypto provides the government a means "to invite more participation with more people, in a way that we can trust they are who they say they are."

That purported goal—of crypto as a means to offer constituents additional, hopefully accessible ways of interacting with their government—appears to be shared by other blockchain-curious municipal officials all across the political spectrum, like the leaders of Williston, North Dakota. Finance director Hercules Cummings announced last year that the city would be partnering with crypto-payment firm BitPay to accept utility bill payments in digital currencies. The mission, Cummings told us, is to gauge this system's workability and get constituent feedback—and then perhaps expand the tech to other municipal fur like payment of speeding tickets, fees for business and liquor licenses, ledgers of pu debts on the blockchain, and even cryptocurrency-mining units powered by landfill r emissions. For now, he elaborated, "We're just offering *another* payment corridor if t customer wants to do that."

The pilot has been going on for about a year, and Cummings admitted that usage is "relatively low," in part because Williston is a rural locale with a small population. But he also notes that Williston was one of the earliest cities to incorporate crypto and notes other factors that could drive up demand: a growing population of out-of-towners who come to work in oil fields and "are already familiar with crypto technology," proximity to an in-construction crypto factory, and a partnership with Coin Cloud to operate a crypto ATM in the city's international airport.

Though officials we spoke with from all these smaller cities expressed higher ambitions for crypto in city government—Cummings told us he's been in touch with metaverse companies—none is exactly trying to establish blockchain-based autonomous regions, as one Nevada company attempted recently (with support from Gov. Steve Sisolak). At the end of the day, Reno's Schieve told us, it's all capitalizing on the hype that crypto has built up for itself. "I think cities need to continue to be innovative, and what I like to say is when you stop trying is when you fail," she said. " I think in this country we have this too big a fear of failing, and I think: Fail fast, and fail often. Because that's how you become innovative and changemaking."

* * *

With numerous cities—both big and small, from Austin to Massena—integrating crypto into government, it's important to ask: Do crypto and the blockchain actually *do* anything meaningful for these cities?

One thing we learned: None of the smaller cities we surveyed is actually handling cryptocurrency itself. In fact, every one ensures currency payments are converted to fiat before being received by the municipalities. Second, it's worth interrogating the purported motivations behind crypto adoption: a way to advertise a city's innovative spirit, a tool to improve government instead of undermining it, a means of increased "transparency"—

which can either mean using crypto to improve government, like Portsmouth's mayor says, or to take responsibilities away from central government and put them on a virtual, privatized chain. To figure out whether crypto is achieving these goals requires public feedback—but almost everyone we talked to agreed that getting people to see any sort of good-government potential for blockchain has been difficult. "Just talking to people doing walkabouts … there are obviously people concerned about emerging asset cla that have pretty wild swings in value and stability," said Portsmouth Mayor Deaglan McEachern. Around Williston, local media outlets have been critical of the city's and crypto efforts, highlighting the energy use of Bitcoin mining, the crypto market's volatility, and the scams. As for NFTs? "It depends. Some people love the *Space Whale*, some people don't," Schieve told us. "I was a big believer in that sculpture, and a lot of people love it, but it also gets very controversial."

These city officials pointed to any number of causes for the skepticism and hesitation—negative headlines, classic doubt of anything that's new—but what may ultimately prevent more cities from cryptofying is the fact that the blockchain economy is deliberately built to be difficult. As technologist Xiaowei Wang wrote in their 2020 survey of a rural Chinese chicken farm that had incorporated blockchain into its supply chain process, "Under governance by blockchain, records are tamperproof, but the technical systems are legible only to a select few. Even exploring transactions on a blockchain requires some amount of technical knowledge and access." As such, demonstrating a Web3 project in your town might not be enough to fully sway a skeptic, who might just find the process forbiddingly puzzling. It may be further unattractive to longtime residents of small cities like Williston, who may be skeptical of transplants who come to cash in on speculative booms that flare out and crash hard. A new government initiative need not be megapopular to be useful and, down the line, necessary. But what then happens when you've tried to sell your bridge and people don't want to buy it?

Future Tense is a partnership of Slate, New America, and Arizona State University that examines emerging technologies, public policy, and society.

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Crypto

SEC Weighs Waiving Some Rules to Regulate Crypto, Gensler Says

- Disclosures can be tailored for digital firms, he says
- Crypto industry facing headwinds from market downturn

The headquarters building of the U.S. Securities and Exchange Commission in Washington, D.C. *Photographer: Zach Gibson/Bloomberg*

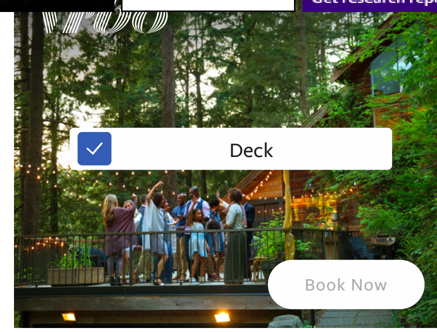
By Lydia Beyoud and Yueqi Yang

July 14, 2022 at 11:49 AM EDT

From **Crypto**

Wall Street's top regulator may use its authority to exempt crypto companies from certain securities laws to help the industry come into compliance, Securities and Exchange Commission Chair Gary Gensler said Thursday.

"We do have robust authorities from Congress to use our exemptive authorities that we can tailor" for disclosure and investor protection, Gensler said during an interview with Yahoo! Finance.



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'Gensler has to act soon': Congress, Wall Street await more SEC action amid crypto meltdown

Jennifer Schonberger · **Senior Reporter**
Sun, July 17, 2022 at 7:00 AM · 6 min read

In this article:

BTC-USD +4.58% | COIN +13.76% | ETH-USD +9.52%

With crypto platforms going bankrupt and investors unable to withdraw funds from some crypto outfits, Senator Elizabeth Warren (D-MA) is calling on the Securities & Exchange Commission (SEC) to act.

“Congress needs to act, but the SEC has a

"I've been ringing the alarm bell on crypto and the need for stronger rules to protect consumers and financial stability," Warren added. "Too many crypto firms have been able to scam customers and leave ordinary investors holding the bag while insiders make off with their money."

It's not just members of Congress — analysts are also baffled as to why SEC Chairman Gary Gensler has not been more aggressive.

"Gensler has to act soon," says Cowen analyst Jaret Seiburg. "Otherwise, we expect progressives and conservatives will blame him for why average investors have lost money in crypto."

U.S. Securities and Exchange Commission (SEC) Chair Gary Gensler testifies before a Senate Banking, Housing, and Urban Affairs Committee oversight hearing on the SEC on Capitol Hill in Washington, U.S., September 14, 2021. REUTERS/Evelyn Hockstein/Pool

'We have rules in place'

Under Gensler's leadership, the SEC has been reluctant to propose rules to regulate crypto or apply existing securities laws. And this after Gensler has repeatedly said over the past year and a half that nearly all cryptocurrency tokens are securities, and platforms that trade those tokens are exchanges.

A lobbyist speaking on a condition of anonymity says it seem much of the agenda at the SEC is one crypto industry lobbyist, who also says a significant amount of the crypto industry is afraid to proactively engage with the SEC over fears of enforcement actions.

When asked by Yahoo Finance in an interview on Thursday why the SEC hasn't acted more aggressively to write rules to protect investors, Chair Gensler said he rejected the premise.

"We have rules in place for what it means to be an

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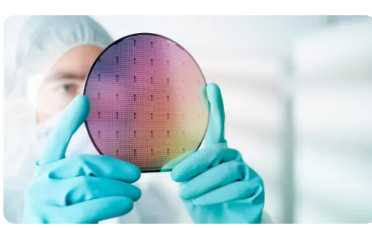

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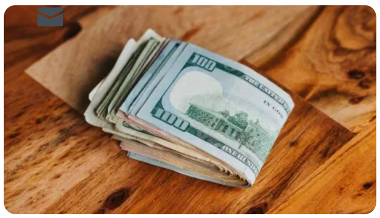

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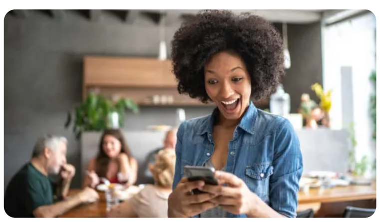

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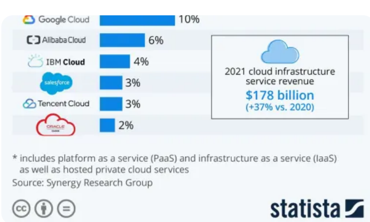

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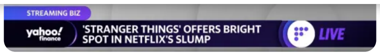

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MONEY

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How Will Cryptocurrency Regulation Affect Crypto Prices?

Crypto price concerns today have very little to do with any pending cryptocurrency regulation, experts say.

By Michael Adams

Reviewed by Rachel McVearry

June 29, 2022

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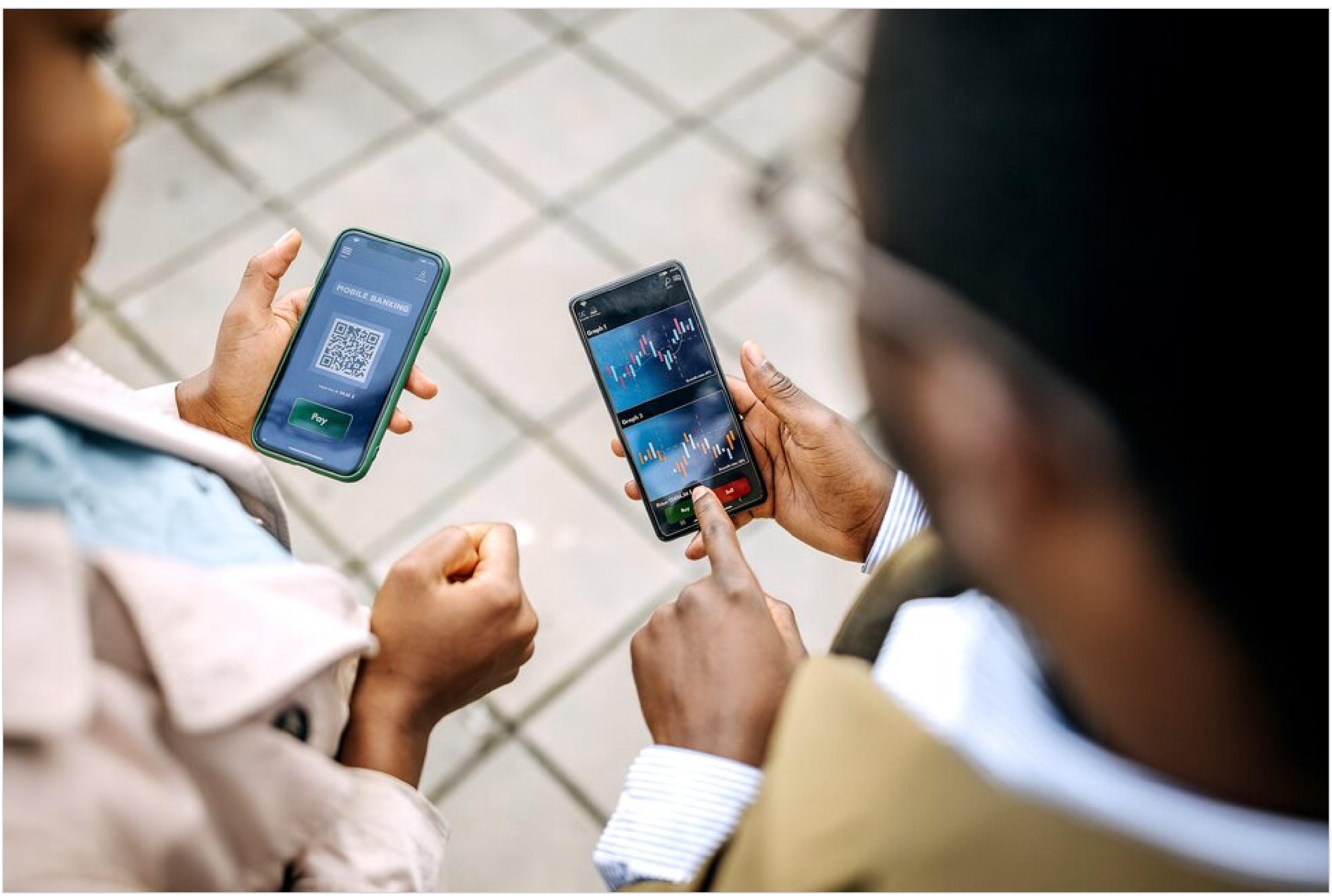

While some crypto investors are panicking, others are looking forward to what a regulated future could hold. (GETTY IMAGES)

When it comes to trading stocks, to a certain extent, investors know w l
these regulations protect investors from fraud and other risks. Howev
government regulations have yet to be put in place. This means the cr d
hence, greater risk than the stock market.

For some investors, this has been a boon. Early crypto investors spen
despite, and perhaps because of, its unregulated nature. This was par
find the lack of regulations a compelling reason to join in. In fact, mar
that cryptocurrencies could eventually change the very rules of global

At their high in November 2021, cryptocurrencies combined reached a $2.9 trillion total market cap. Obviously, this is a drop in the bucket compared with the stock market's $48 trillion value. But for an asset class that was little more than a decade old, it was significant.

However, since its 2021 peak, Bitcoin (BTC) has lost more than 70% of its total value. The crypto markets overall are now worth less than $1 trillion. Not to mention, it now looks like government regulations could be coming soon.

In March 2022, President Joe Biden signed an executive order to provide a "whole-of-government approach to addressing the risks and harnessing the potential benefits of digital assets and their underlying technology." In addition, 10 countries have already launched a digital currency, and China intends to follow suit as early as 2023. In fact, more than 100 countries are exploring starting their own cryptocurrencies, and these countries combined account for 95% of global gross domestic product.

While some crypto investors are panicking, others are looking forward to what a regulated future could hold. Let's dig into what regulations might mean for investors and the price of cryptocurrency assets.

- How regulations could affect investing in cryptocurrency.
- Who will be regulating cryptocurrencies?
- Cryptocurrency regulations and the price of cryptocurrencies.

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How Regulations Could Affect Investing in Cryptocurrency

"Regulations are a positive aspect for the industry," says Adam Reeds, lending firm, because "many institutions and larger established group believes many of these institutions would like to invest in crypto, but a for them.

In addition, regulations "should create a framework where there are disclosures," says Katherine Dowling, general counsel and chief compliance officer for Bitwise Asset Management. These disclosures, Dowling goes on to say, will help create transparency for the overall investment class.

The importance of transparency for institutional investors cannot be understated. Due to the risk-management nature of institutions, there must be a risk profile for each investment. These kinds of risk profiles can only be built for transparent assets, which cryptocurrencies simply aren't yet.

For example, the lack of transparency for the algorithmic stablecoin TerraUSD (UST) not only caused massive price drops for UST in May, but the collapse also affected its sister coin LUNA and BTC prices as well. A Chicago investor recently brought a securities fraud class-action suit against six crypto venture capital firms that backed Terra tokens in the months before the collapse.

This wasn't the first time a cryptocurrency had caused severe financial hardships for investors. Ethereum's DAO coin failed all the way back in 2016 due to a hack, which led to the theft of $60 million in Ethereum's Ether (ETH) coin. Eventually, Ethereum's underlying blockchain was forked and the stolen currency was returned, but the experience had profound effects. Not the least of which was the Ethereum community now having two different blockchains: Ethereum and Ethereum Classic.

More recently, a lack of transparency with Tether's USDT coin has caused problems for the stablecoin. In fact, USDT's issuer was fined $42 million by the Commodity Futures Trading Commission when the company was found to be in violation of the Commodity Exchange Act and other CFTC regulations. This was in addition to having already paid $18.5 million to the New York Attorney General's office for a settlement back in February 2021. Much of the settlements and fines had to do with audit problems for USDT's existing treasury. This is an example of a problem that could potentially be solved with greater crypto regulation.

In fact, until there are regulations governing the reporting and trading f these price drops will be the last, experts say. And for a large financia to their massive balance sheets, financial firms may avoid speculating amounts of capital due to underlying fiscal problems.

However, with the help of regulations and ensuring transparency, not o greater investments in crypto, those investments could help stabilize strategy officer for KingsCrowd. In fact, Reeds adds, his company's re clarity when it comes to their investments. And until regulations exist, cryptocurrencies.

The aforementioned regulations are clearly en route. The questions many crypto investors are now asking is: What will these regulations look like, and who will be enforcing them?

[**READ:** How to Protect Your Crypto Investment From Hacks.]

Who Will Be Regulating Cryptocurrencies?

Sen. Cynthia Lummis, R-Wyo., and Sen. Kirsten Gillibrand, D-N.Y., recently proposed the bipartisan Responsible Financial Innovation Act, which has now been referred to the Senate Committee on Finance.

One interesting aspect of this bill that's incredibly important, Dowling says, is that it proposes having the CFTC be the primary regulator of cryptocurrencies. Interestingly enough, Dowling goes on to point out, "Gillibrand serves on the Agricultural Committee, which has oversight over the CFTC."

Dowling points out that one of the biggest problems the discussion around cryptocurrency regulation has had is defining what "bucket" the asset class falls into. Are they securities? Are they commodities? Or are they another type of vehicle entirely?

Dowling says that despite how many investors think of them, "it's not a foregone conclusion that these digital assets are all securities. In fact, many are not." This means that the Securities and Exchange Commission may not be the best authority to handle crypto regulations.

SEC Chair Gary Gensler seemed to echo this sentiment when he recently pointed out that with regard to Bitcoin, at least, he considers the cryptocurrency to be a commodity. Of course, this falls in line with many crypto investors' beliefs that Bitcoin is "digital gold."

This is also a far cry from when Gensler agreed with former SEC Chair Jay Clayton, who said he believed "every ICO I have seen is a security." An ICO is an initial coin offering, which is how many cryptocurrencies enter the marketplace. Chairman Clayton went on to say, then, that with regard to cryptocurrencies, the SEC has "jurisdiction, and our federal securities laws apply."

This would not be the case, however, if cryptocurrencies were defined as commodities. There would be different definitions of the asset class, leading to different regulations. Gillibrand and Lummis should have a good take on these different regulatory classes: Not only does Gillibrand serve on the committee overseeing the CFTC, but Lummis serves on the Senate Committee on Banking, Housing and Urban Affairs, which oversees the SEC.

As Dowling points out, certain cryptocurrencies with certain attributes might still be considered securities, and these will most likely fall under the purview of the SEC. Dowling goes on to say that "creating these definitions and making sure they are correct" is extremely important. If you define cryptocurrencies incorrectly, she says, "you may be treating them in ways that aren't appropriate for them."

This could wind up being the most important role of Lummis and Gillibrand's Responsible Financial Innovation Act: determining how the government defines cryptocurrencies and hence whose jurisdiction the individual currencies fall under.

With regard to the question, then, of who will be regulating cryptocurrencies: Right now, the verdict is still out, but two distinct possibilities are the CFTC and the SEC.

[**READ:** Crypto and Russia-Ukraine War: What Investors Should Know.]

Cryptocurrency Regulations and the Price of Cryptocurrencies

Regardless of how cryptocurrency regulation unfolds, many experts in the field believe that coming oversight and regulation will ultimately help stabilize digital assets' prices.

Cryptocurrency prices have been in freefall since the fourth quarter of 2021. For many retail investors, it appears a bottom may never be hit. Even the Chinese government is now forecasting that Bitcoin will go to zero. Of course, this kind of statement could be enough to keep many retail investors out of the asset class entirely, accelerating its losses.

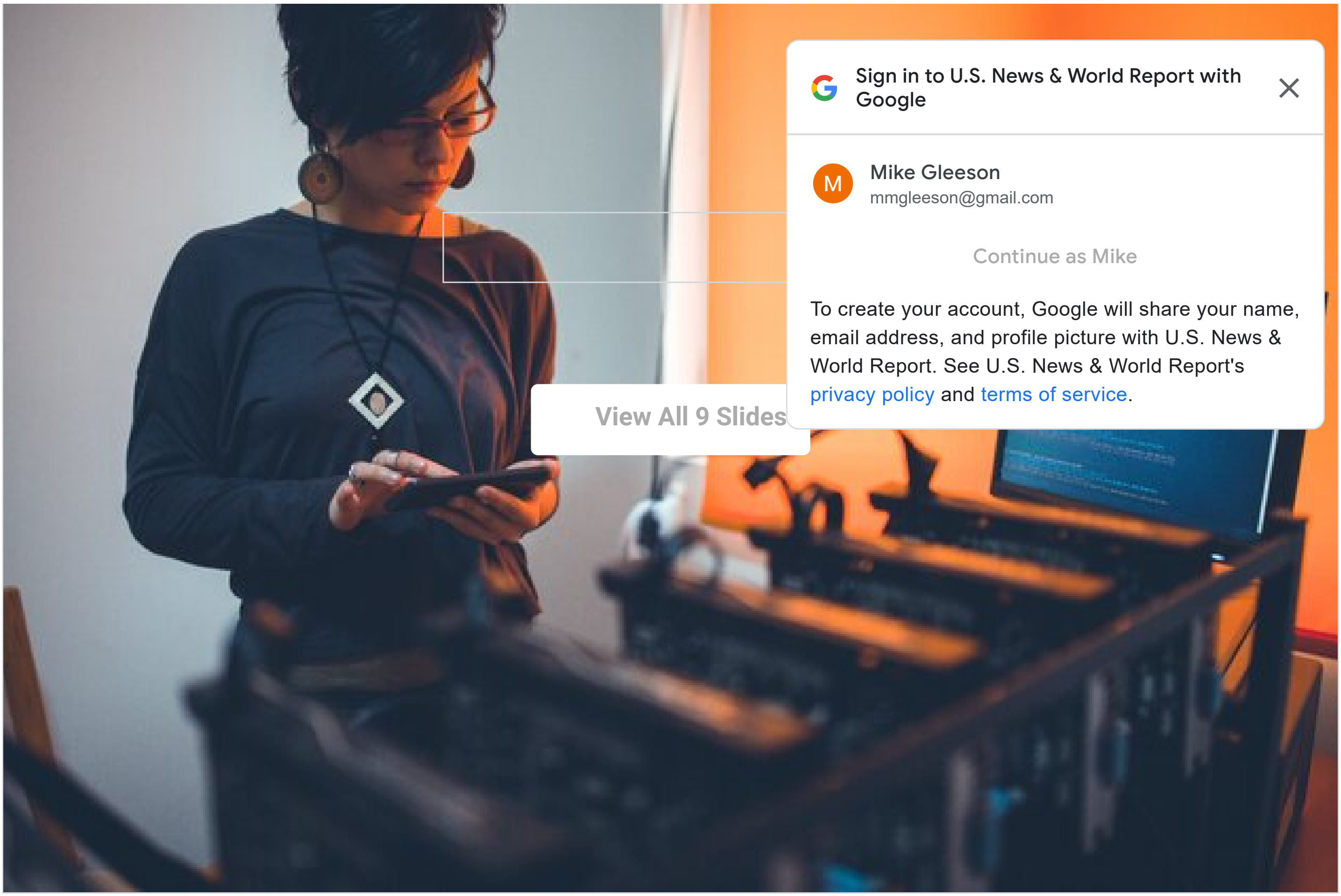
Narayanan believes, however, that eventually regulations should help stabilize crypto prices. He says this is because regulations could allow for more institutional investment, with retail investors injecting more capital into digital assets. Massive inflows of capital could cause the prices of regulated cryptos to stabilize, attracting retail investors who haven't taken the asset class seriously yet. This would further drive value and stability.

For investors who fear cryptocurrency regulations, Reeds says crypto price concerns today have very little to do with any pending regulation. He goes on to say that the current drop in cryptocurrency prices has more to do with global macro factors.

And that's why Reeds' organization is "having a lot of conversations, especially with Canadian regulators, and really looking forward to protecting our clients and making sure all information about these products is disclosed." He says a nation will eventually house "the new SWIFT banking system for digital assets." In order for a government stablecoin to become the global reserve for digital assets, that coin will have to be regulated and transparent, he explains.

Cryptocurrency may be falling in price right now, but the genie is out of the bottle. Even if Bitcoin does "go to zero," it may be hard to imagine a future world where cryptocurrency doesn't exist. And if regulation really is an answer to stabilizing crypto prices, competition on that field could allow new crypto leaders to emerge.

Why Does Crypto Crash? 6 Reasons



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Updated on June 29, 2022: This story was published at an earlier date and has been updated with new information.

Tags: cryptocurrency, financial regulation, SEC, bitcoin, Ethereum, investing, money, stablecoin, commodities

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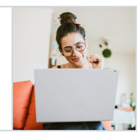

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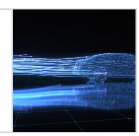

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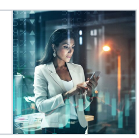

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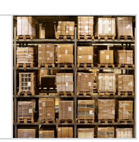

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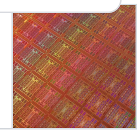

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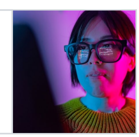

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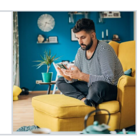

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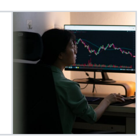

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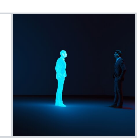

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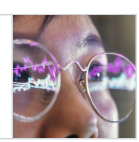

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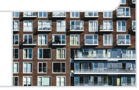

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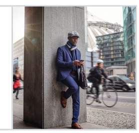

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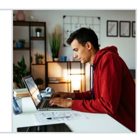

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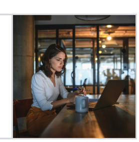

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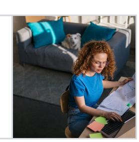

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TAX LAW UPDATE

By David A. Handler, partner in the Chicago office of Kirkland & Ellis LLP, and Alison E. Lothes, partner at Gilmore, Rees & Carlson P.C., in Wellesley, Mass.

• **Internal Reveue Service rules that generation-skipping transfer tax exemption is automatically allocated to trust transfer despite reporting mistakes**—In Private Letter Ruling 202210010 (Dec. 13, 2021) the donor established an irrevocable trust for the benefit of his descendants. It was a classic generation-skipping transfer (GST) trust that could benefit skip persons: (1) distributions can be made to any of the donor's descendants; (2) after the donor's death, the trust splits into shares for each child and their respective descendants; and (3) on a child's death, they have a limited power of appointment (POA) and a contingent general POA over only that portion of the trust that would be necessary to minimize estate and GST tax. A trust that grants withdrawal rights or general POAs over at least 25% of the trust to non-skip persons doesn't qualify as a GST trust under the Internal Revenue Code, but that wasn't the case here (and the formula contingent general POA didn't cause the trust to fall into the exception).

The automatic GST allocation rules would usually apply to a GST trust, unless the donor opted out on a gift tax return. IRC Section 2632(c)(1) provides that an individual's unused GST tax exclusion is automatically allocated to indirect skip transfers that the individual makes during their lifetime. An individual may elect out of the automatic GST tax exemption allocation to indirect skips made to a trust by attaching an election out statement to a timely filed gift tax return.

The donor filed a gift tax return, and there was no election out. However, errors were made: The gift was reported on Part 1 of Schedule A, as a transfer subject only to gift tax, and it didn't indicate any automatic allocation on Schedule D.

The IRS ruled that GST tax exemption was automatically allocated to the transfers to the trust despite the donor incorrectly reporting gifts as "Gifts Subject only to Gift Tax" rather than "Indirect Skips." The IRS reasoned that incorrectly labeling the transfers didn't constitute filing of an election out statement required to elect out of the automatic allocation rules applied to indirect skip transfers.

PHILANTHROPY

Interested in Crypto? Because Your Lawmakers Are

By Sandra G. Swirski, founder of Urban Swirski & Associates in Washington, D.C. and Geoffrey Paul, government affairs associate at Urban Swirksi & Associates in Washington, D.C.

Enthusiasm about crypto is big and growing exponentially. Last November, digital assets surpassed a $3 trillion market cap,[1] up from $14 billion just five years prior, with roughly 40 million people having invested in, traded or used cryptocurrencies.[2] Countries are curious about digital assets too. Over 100 nations are exploring or piloting a digital form of their country's sovereign currency.

But it's not just the asset class, or any newfangled currency, that's causing excitement.

News of new applications for crypto technology continues to crop up in surprising places. Ranchers in Wyoming are using cattle tracking non-fungible tokens (NFTs) to identify individual steer, prove ownership and trace each one through the supply chain.[3] Artists are using this same NFT technology to sell digitized art to new audiences.[4] And a group of investors—in consultation with the giving platform Endaoment—tried to purchase a copy of the U.S. Constitution at a Sotheby's auction using donations of Ether, a popular cryptocurrency.[5] If present trends continue, crypto technology will be integrated into more and more sectors of the economy while continuing to collect new investors and users.

Reporting Requirements

We've already seen digital assets begin to be folded into the Tax Code. For 2021, the Internal Revenue Service added a newly worded question about crypto right at the top of the Form 1041 about selling, exchanging or otherwise disposing of crypto for purposes of taxing the gain.[6] In November, Congress also used the Infrastructure Investment and Jobs Act to add new reporting requirements for digital currency brokers. The intent behind these new rules was to add some transparency because sunshine can be a good disinfectant.

Tax Liability

These new reporting requirements have investors and advisors looking for ways to reduce tax liability, which may be uncharted territory for some upstart crypto holders. Based on how this tax filing season goes, we may see additional rules and tools given to the IRS to help further close the tax gap between what's owed on crypto and what's collected. We might also finally see guidance from the IRS on how to treat NFTs—as an investment, like crypto, with a top tax rate of 23.8% on earnings, or as a collectible with a top tax rate of 31.8%.

All this focus on tax liability is perhaps one reason crypto giving has ballooned this year. Remarkably, Fidelity Charitable, one of the nation's largest grantmakers, reportedly took in over $330 million in digital assets in 2021, up from about $30 million in 2020. Intermediaries like Endaoment and The Giving Block are popping up to facilitate giving and accepting crypto donations for donors and nonprofits. Crypto donors are giving big gifts too. The Giving Block reported an average donation size of nearly $10,500 in 2021.[7]

Proposed Legislation

Unsurprisingly, this fast growing asset class hasn't only caught the tax community's attention. Congress has responded with multiple hearings on a wide range of issues, from whether to require depository insurance for certain entities, to addressing concerns over crypto mining's environmental impacts, and members have begun writing bills to put Congress' mark on the space.[8]

Adhering to conventional wisdom, Democratic lawmakers are pressing for more robust consumer protection laws. Cryptocurrency skeptics like Sen. Elizabeth Warren (D-MA) and Sen. Sherrod Brown (D-OH) argue that the public needs to be protected from the risks they say cryptocurrencies pose. Meanwhile, their Republican colleagues generally tend to favor a lighter regulatory approach.

How Congress will manage competing priorities —protecting consumers while encouraging innovation—remains to be seen. Up to this point, no comprehensive legal framework has been formally proposed on Capitol Hill. However, a bipartisan effort to write a comprehensive regulatory framework for crypto markets is underway in Sen. Cynthia Lummis (R-WY) and Sen. Kirsten Gillibrand's (D-NY) offices.[9]

The Gillibrand/Lummis effort is noteworthy. As is often the case before a midterm election, we're seeing congressional lawmakers focus on domestic and pocketbook issues. So, in a political moment that often results in splits along party lines, Sens. Gillibrand and Lummis's coordination stands out. While it's difficult to see the path to enacting the bill this year, even if it's introduced within the next few months as suggested by the sponsors, the well-funded lobbying campaigns by those with direct business interests suggests that the time to get a seat at the table is here. And as the old saying in Washington goes, if you're not at the table, you're on the menu.

Executive Order

The administration is feeling the heat from crypto too. Back in early March, President Joe Biden signed a sweeping executive order directing a slew of government agencies to coordinate on a regulatory framework for digital assets. According to the executive order, "[t]he rise in digital assets creates an opportunity to reinforce American leadership in the global financial system and at the technological frontier, but also has substantial implications for consumer protection, financial stability, national security, and climate risk."[10] If the myriad bills in Congress weren't enough, the executive order, which calls for a whole-of-government regulatory framework, is being heralded by the crypto industry as the much anticipated recognition that digital assets aren't a fad but here to stay.

While the executive order declines to put one person or department in charge of crafting an interagency regulatory plan, Treasury Secretary Janet Yellen recently sounded a call for a big tent approach. In a statement released just after President Biden signed his executive order, she notes that Treasury's work will "…be guided by consumer and investor protection groups, market participants, and other leading experts…" as Treasury works to "…promote a fairer, more inclusive, and more efficient financial system…"[11] Sounds to us like an invitation for meaningful dialogue.

Shaping the New Frontier

With so much at stake for investors, business executives, wealth advisors, philanthropists and charities, an invitation from lawmakers and regulators to help shape the global governance of digital assets and the new technological frontier for now and generations to come should come to you as a clarion call. Or at the very least should make you wonder what you may be missing out on.

Endnotes

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TIPS FROM THE PROS

What Basis Consistency Regulations?

By Charles A. Redd, partner at Stinson LLP in St. Louis and a fellow of the American College of Trust and Estate Counsel

President Obama signed the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 (the Act) into law on July 31, 2015.[1] The Act was effective immediately and affects all United States Estate (and Generation-Skipping Transfer) Tax Returns (Form 706) filed after July 31, 2015. Section 2004 of the Act added a new subsection (f) to Internal Revenue Code Section 1014, added a new Section 6035 to the IRC and amended IRC Sections 6662 and 6724.

Summary of Statutory Provisions

IRC Section 1014(f)(1) provides that the basis of property acquired or having passed from a decedent shall not exceed the final value of such property as determined for estate tax purposes or, if the final value hasn't been determined, the value of that property as reported on a statement furnished under new Section 6035. The mandate of Section 1014(f)(1) applies, however, only to property whose inclusion in the decedent's estate increases estate tax liability.[2]

Section 6035(a) imposes reporting requirements on those who are required to file an estate tax return. If an estate tax return must be filed under IRC Section 6018,[3] the reporting party must also provide a statement[4] to the Internal Revenue Service and to each person acquiring any interest in property included in the decedent's gross estate identifying the value of each interest in such property as reported on the return. Such a statement must be furnished at the time prescribed in regulations but no later than