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How the Bitcoin Industry Is Responding to Wall Street’s ESG Concerns

“They are doing it out of the sense of survival,” said John Reed Stark, former chief of the U.S. Securities and Exchange Commission’s Office of Internet Enforcement.
Lyllah Ledesma

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One cryptocurrency asset manager is buying emission offsets. A digital-asset trading platform says it wants to be “carbon negative” within 18 months. A new token would wrap bitcoin (BTC, -11.14%) with carbon credits so that they could trade together as a single asset.

Just a month after Tesla CEO Elon Musk tweeted his concerns about the potential environmental harm from bitcoin mining, sending the cryptocurrency’s price into a tailspin, some industry players are rushing to respond. They’re looking at ways to address the environmental, social and governance (ESG) issues that might deter
big institutional investors from embracing bitcoin.

“They are doing it out of the sense of survival,” said John Reed Stark, a former chief of the U.S. Securities and Exchange Commission’s Office of Internet Enforcement who now works as a consultant.

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Though some experts had been warning for years that the bitcoin market's narrative of "institutional adoption" was on a collision course with the ESG mandate that now dominates the activities of big money managers like BlackRock, it's too early to tell how much of a difference the latest efforts might make. Will the bitcoin mining industry actually shrink its carbon footprint or just announce ambitious goals and make peripheral adjustments to give big investors cover?

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“Bitcoin in its current form is not good for the environment,” said Campbell R. Harvey, an economist and professor at Duke University. “Nobody can argue that this isn’t a true statement.”

Some industry executives have criticized the narrative that bitcoin is particularly bad for the environment, arguing that the adverse climate effects are overblown. As MicroStrategy CEO Michael Saylor said at a meeting this week of the newly formed Bitcoin Mining Council, “We are not trying to fix bitcoin” but trying to counter the threat that “people don’t understand bitcoin.”
Another position is that the digital currency’s value to the economy and society justifies the energy consumption.

Jesse Powell, CEO of the cryptocurrency exchange Kraken, told Bloomberg in an interview published this week that bitcoin is “a lot greener than people give it credit for.” Early Thursday, Bitcoin Magazine tweeted out a screen grab of the interview, and Musk tweeted in response: “Based on what data?”

Read more: Bitcoin Tops $40K as Musk Says Tesla May Accept Crypto in Future

The issue doesn’t seem to be going away, with bitcoin now changing hands at around $37,500, well off the all-time high near $65,000 reached in April.

So some big players are moving beyond the rhetoric and denial toward business changes that might help to address or remedy any environmental ills.

Here’s a rundown:

- **Crypto.com wants to be "carbon negative."** Crypto.com, an app for trading cryptocurrencies, announced in a blog post on May 27 that it had set a goal for the next 18 months of
becoming “carbon negative.” "Starting immediately, the first phase will focus on an assessment of the carbon generated through cryptocurrency trading, deposit and withdrawal activities across all of Crypto.com's platforms (App, Exchange, NFT, DeFi, and Crypto.org Chain)," according to the post. "The second phase will identify the most effective ways to offset the carbon generated, with the support of accredited organizations specializing in carbon offsetting and sequestration." A third-party auditor will be retained to offer accountability. “The climate crisis is the most pressing issue of our time” CEO Kris Marszalek said in the post.

- **One River Digital and "tokenized carbon credits."** The asset management firm has filed for a bitcoin exchange-traded fund (ETF) that would be carbon neutral. The company said last week that an overwhelming majority of assets in an existing institutional bitcoin fund had chosen to switch to a new "carbon neutrality share class." The firm has "developed an index (BTC.X) based on the estimated carbon emitted per bitcoin and the market price of the offset required to neutralize that emission,"
according to a press release. "At today's prices and estimated carbon emissions, this is equivalent to $55 per year, or 0.15% of the cost of a bitcoin. One River buys tokenized carbon credits, validated on a blockchain."

- **CoinShares and the "ESG crypto mining product."** CoinShares, a digital asset investment firm, said in a May 27 press release that it had made a strategic investment in Viridi Funds and that it will advise the manager on "the first ESG crypto mining product in the U.S." According to the press release, the move will help "meet emerging client appetite for these types of products."

- **Tokensoft and the "carbon-neutral bitcoin-backed asset."** Wrapped, a collaboration between tokenization specialist Tokensoft and digital-asset custodian Anchorage, announced a "carbon-neutral bitcoin-backed-asset" called Eco BTC (eBTC). According to a press release, the asset will combine bitcoin and carbon credits into a single digital asset, built atop the Celo blockchain platform. The deal will allow "institutional investors to add bitcoin to their portfolio and meet their fund's sustainability goals," Tokensoft CEO Mason Borda said in the statement.
Of course, bitcoin mining represents just one of many industries struggling to adapt to the ESG concerns. According to the Wall Street Journal, General Motors and Ford are boosting investments in electric vehicles to reduce emissions, while utilities including Xcel Energy and CenterPoint Energy are producing more renewable power.

“The auto industry in America is tackling ESG concerns at the moment,” said Steve Ehrlich, CEO of Voyager Digital. “However, it doesn’t come under the same level of scrutiny as the crypto industry does.”

Harvey, the Duke professor, says some investors might latch onto the idea that their bitcoin-related investments could be sanitized via carbon credits, but he notes that other investors might not care at all - preferring the returns that might come from fast-moving cryptocurrency markets and
disregarding the potential environmental impact.

In the long run, Harvey says, the concerns might be mitigated because “eventually energy production won’t be dirty,”

“Then bitcoin will no longer have this problem,” he said.

None other than Arthur Hayes, founder of the BitMEX exchange (and also a defendant in U.S. federal charges over alleged violations of the Bank Secrecy Act) noted in a blog post last week how crucial the issue had become.

“The ESG narrative is front and center because the most desirable locations for mining bitcoin are those that appear to be ESG-compliant,” Hayes wrote on June 10. “That stamp of approval allows institutional money to check their box, and invest.”

Sam Bankman-Fried, CEO of the cryptocurrency exchange FTX, told Bloomberg this week in an interview that solutions to address investors’ concerns might be “something the industry could pay without really setting itself back that much.”

“The answer is that it’s not free to mitigate, but it’s not that expensive,” Bankman-Fried
said.

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Market Wrap: Bitcoin Slides to Two-Week Low, Ether to Below $2K as China Reiterates Crypto Ban

CME's bitcoin futures goes into "backwardation" and BTC inflows to exchanges rise as China "FUD" continues.
CoinDesk’s Bitcoin Price Index.

Muyao Shen

Jun 21, 2021 at 4:18 p.m. EDT

China’s central bank announced Monday it had recently summoned several banks and payment firms to ramp up their crackdown on cryptocurrency trading, prompting several key market indicators to turn bearish Monday.

- **Bitcoin (BTC)** trading around $32,590.39 as of 20:00 UTC (4 p.m. ET). Slipping 7.88% over the previous 24 hours.

- Bitcoin’s 24-hour range: $31,744.99-$36,119.80 (CoinDesk 20)

- **Ether (ETH)** trading around $1,945.31 as of 20:00 UTC (4 p.m. ET). Slipping 12.21% over the previous 24 hours.

- Ether’s 24-hour range: $1,893.15-$2,276.16 (CoinDesk 20)
Bitcoin faces significant selling pressure in Asia

Monday’s sell-off was triggered by negative news in China once again. But the market is split on the severity of the renewed crackdown by the Chinese government.

The correction is “mostly driven by China FUD [fear, uncertainty and doubt] again,” Annabelle Huang, partner at Hong Kong-based Amber Group, told CoinDesk. “Hardly news, not that [banks and payment services in China] are really providing services to crypto-related [business] anyway.”

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Others, however, expressed less positive views.

“The statement of the central bank of China is relatively mild as mentioned before,”
Colin Wu, a crypto journalist based in China tweeted. “But does this mean that the Chinese government’s crackdown is over? We are not sure. Just as no one had predicted that China’s crackdown on bitcoin mining would be so severe.”

Notably, prices for the tether and Chinese yuan pair on the over-the-counter (OTC) desks on Huobi and Binance, two of the most popular crypto exchanges among Chinese investors, have plummeted in the past 24 hours as well, according to data from Price Dancing.

The drop reflects a reduced demand for tether, a preferred stablecoin by many traders in China, on the OTC desks, as traders and investors in China are possibly selling their crypto holdings and turning them into cash.
“Since [China] shut down Sichuan mining operations, some miners had to liquidate their crypto holdings,” Huang said. “Mining ban is going to have a somewhat ongoing effect.”

Read More: Sichuan Becomes Latest Chinese Province to Order Bitcoin Miner Shutdown

Bitcoin futures 'backwardation'

Monday’s price slide has prompted institutional investors to exit bitcoin futures on the Chicago Mercantile Exchange (CME), resulting in an unusual condition known as “backwardation,” which is when futures trade at a discount to the spot price.

Bitcoin futures annualized rolling 3-month premiums turned negative earlier Monday, resulting in backwardation.
Source: Skew

JPMorgan, in a recent report, said that such a move on the bitcoin futures market should be seen as a sign of weak demand for bitcoin from institutional investors, who
are the primary users on the CME, as CoinDesk reported on June 10.

**Bitcoin inflows to spot exchanges highest since March 2020**

On June 19, the mean of bitcoin's daily inflow to spot exchanges reached its highest level since the market crash in March 2020, according to blockchain data firm CryptoQuant, meaning that more BTC are available to be sold on exchanges.

The daily mean of bitcoin inflow to spot exchanges spiked in the recent days.

Source: CryptoQuant

Ki Young Ju, the chief executive of CryptoQuant, also noticed that bitcoin “whales” have started to sell their large holdings, intensifying the bearish sentiment.

Ju and his firm use a so-called whale capitulation index to monitor bitcoin whales’ behaviors. The index number has turned positive, which shows that an increased number of bitcoin whales are sending their coins to exchanges, according to Ju.
Whale capitulation index
Source: CryptoQuant

The number remained positive for an extended period of time during the bear markets of 2018 and 2019.

“I hate to say this, but it seems like the $BTC bear market [is] confirmed,” Ju wrote on his website.

Altcoins hit harder, following bitcoin’s sell-off

The alternative cryptocurrency (altcoin) market was hit harder on Monday, with dogecoin among the most significant losers of the day.

At press time, the meme-centered crypto is changing hands at $xx, down XX% in the past 24 hours, according to CoinDesk 20.
Ether, the No. 2 cryptocurrency by market capitalization, also faced a severe daily loss when its price dipped below $2,000, the first time since May 23.

“Notably, most major altcoins suffered relatively higher losses in the last 24 hours when compared with bitcoin, and we may, very soon, see a switch from alts to bitcoin in terms of capital flows,” Hunain Naseer, senior editor at OKEx Insights, told CoinDesk.

Other markets

Digital assets on the CoinDesk 20 are all lower Monday. Notable losers as of 21:00 UTC (4:00 p.m. ET):

- aave (AAVE) - 17.85%
- filecoin (FIL) - 17.02%
- polkadot (DOT) - 16.5%
- uniswap (UNI) - 16.11%

Equities:
- The S&P 500 in the United States rose by 1.40%.

Commodities:

- Gold was up 0.55% and at $1782.72 as of press time.

Treasury:

- The 10-year U.S. Treasury bond yield rose Monday to 1.495%.

Source: CoinDesk 20

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