



# market notes: Some Roads Need a Bridge

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05 May 2023  
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# coinbase ASSET MANAGEMENT

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## market notes... Some Roads Need a Bridge

5/5/23 – Shaun Martinak, Marcel Kasumovich, Hans Bhatia

1. "Before discussing today's meeting, let me comment briefly on recent developments in the banking sector. Conditions in that sector have broadly improved since early March, and the U.S banking system is sound and resilient," Fed Chair Powell led with his press conference. Signature Bank, Silicon Valley Bank, and First Republic Bank build a snowman of equity losses that are nearly as great as the 2008 downturn (Figure 1). Yet, credit markets remain strong. Such is the power of consolidation – assets to large banks, losses to taxpayers.
2. Today's banking crisis is just like Decentralized Finance (DeFi) last year, you say? Quite the contrary. DeFi took the opposite tradeoff of traditional banking, sacrificing short-term value for long-term stability. MakerDAO made record earnings in January 2022 by liquidating the collateral of clients to preserve financial stability.\* And when financial stability issues arose, open forums engaged on appropriate policy responses for all to see and decide in almost real-time. It worked. Yes, MKR is one-tenth its peak value. But the protocol never stopped working.
3. Destruction, when creative, propels humanity to new heights. That's the lesson from last year's downturn in DeFi. Proof of concept. But the model is incomplete absent regulatory discipline. That's a lesson in history, too. The UK led the Industrial Revolution not because of geographic advantage or raw materials. Integrating values like property rights was the unlock for entrepreneurial exploration. Merging digital asset technologies and their platforms into the regulatory mainstream requires a bridge.
4. So, we built it – Onebridge.
5. Onebridge is a digital asset platform that brings traditional financial activities into the digital world. Regulatory frameworks are a design feature, not a friction. Onebridge integrates contract law, the default/ recovery process, securitization, and secondary trading capabilities natively into a blockchain (Figure 2). The Onebridge beta version provides an AML/KYB'd environment, with protocols to enable digitally native Commercial Paper, the tranching of real asset cash flows, and a means to tokenize off-chain assets.
6. In the past year, we demonstrated Onebridge to governments, policy organizations, financial intermediaries, non-financial corporations, and investors. The feedback

universally focused on the efficiency of user experience. At best, the current interaction between digital wallets and smart contracts is clunky. Want to execute familiar financial workflows with smart contracts? It is click, click, and double-click on wallet infrastructure that must sign every operation and wait for a new block to proceed (Figure 3). Smart contract safety and security requires it.

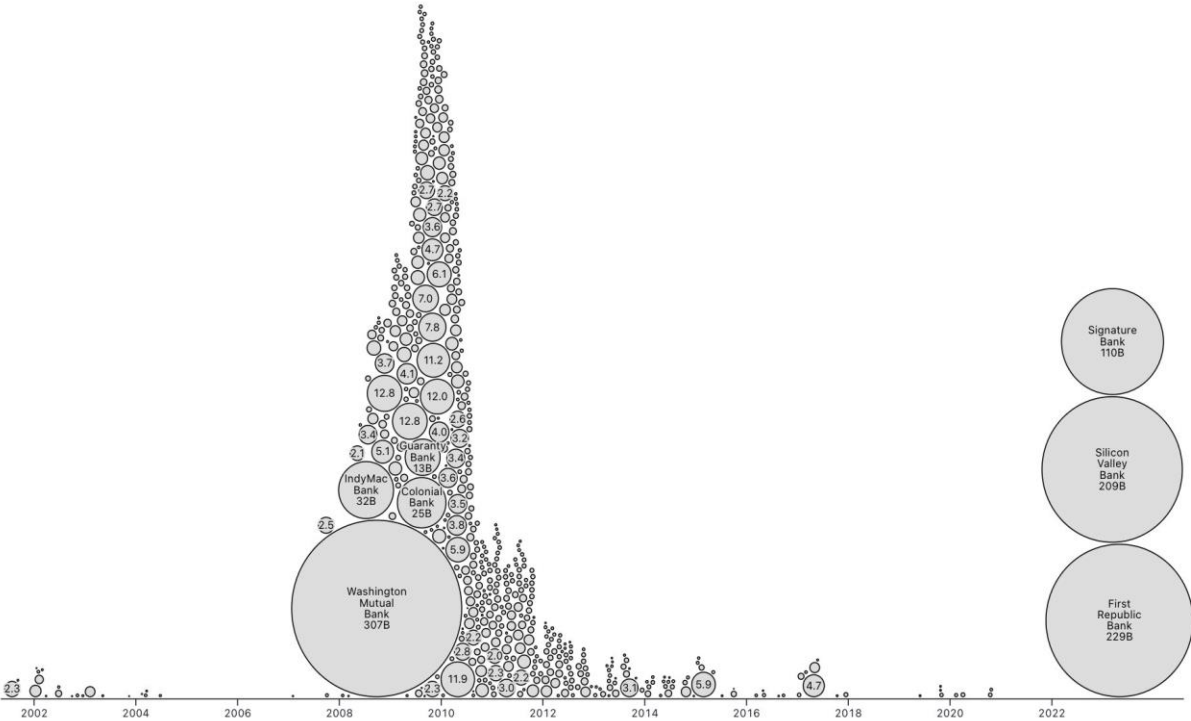
7. Then [EIP-4337](#) arrived. A new standard called “account abstraction” that allows users to create and run smart contract wallets. Hans teaches you all about it in his [Medium](#) post (Figure 4). This improvement greatly increases the flexibility around the user experience – without consensus-layer protocol changes – making it far more efficient to implement. What’s the unlock for EIP-4337? Integration of immutable logic meeting regulatory standards (AML/KYC), one-click batch transactions, ability to pay Ethereum gas in regulated stablecoin, or use a platform that pays for you.
8. It's early days, but the value of EIP-4337 is integrating into Onebridge version 2.0. We listened to the feedback and leveraged the features of account abstraction to generate four key improvements to user experience.
9. First, it is one-click shopping. Wallet interactions are now reduced to a single click, like the current Web2 user experience.
10. Second, investors are no longer required to hold ETH in their wallets to pay for gas. The costs of creating instruments, clearing auctions, and settling cashflows are directly integrated into the platform.
11. Third, auction bids reserve prices are now private. With EIP-4337 integrated, private information is held in an off-chain component waiting to clear the auction. The results, and the integrity of the auction process, are printed to the blockchain.
12. Fourth, capital efficiency is considerably improved. If a bid does not have sufficient capital at the time of auction it is removed. Penalties are seamlessly applied and the auction proceeds, establishing a new price without delinquent bidders.
13. Calling all issuers, investors, central bankers, and policymakers. Onebridge is a platform that has the capacity to bridge digital and conventional markets. CBDCs, stablecoin, bonds, windmills, mining cash flows – Onebridge is building a standard and the standard will be defined by the network. The future is now.

PS – And we can’t wait to show you the unlocks from [Base](#).

One River Digital Asset Management has been acquired by Coinbase and is now Coinbase Asset Management. Additional details on the transaction may be found on the Coinbase blog. References to One River Asset Management and One River Digital Asset Management may be contained herein during the transition period but are subject to change.

\*As compared with earnings from inception to April 2023 in the "Detailed P&L Chart."

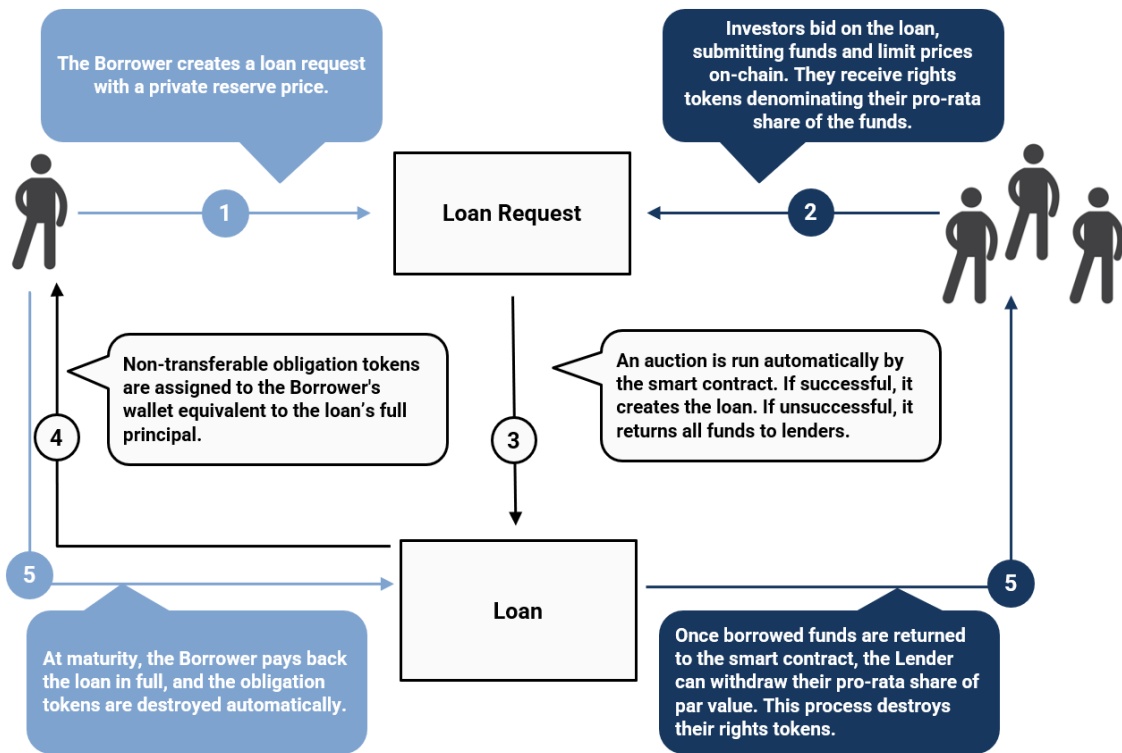
Figure 1: Assets of Bank Failures



Source: Financial Times.

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**Figure 2: Onebridge Flow of Funds, Integration into the Regulatory Mainstream**



**Source: Coinbase Asset Management.**

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**Figure 3: Onebridge Onchain Final Settlement**

The screenshot displays the Etherscan interface for a transaction on the Sepolia Testnet Network. The transaction is identified as a Sepolia Testnet transaction. The transaction hash is 0xd3ac745a6849d1fc50fa133f5e550bd02e5cac8c27872b19c5a72ce4855d7f12. The status is 'Success' with 2862140 block confirmations. The transaction occurred 29 seconds ago on Feb-08-2023 at 11:15:48 PM +UTC. The transaction involved interacting with a contract (0x6c0c63d0cb5ca507ad5891b905d4d569b9a5f384). The ERC-20 tokens transferred include oneBridgeUSD (obUSD) and RightsToken-... (RT-62).

A modal window is overlaid on the right side of the screen, asking 'Are you sure you want to repay?'. The modal contains the following information:

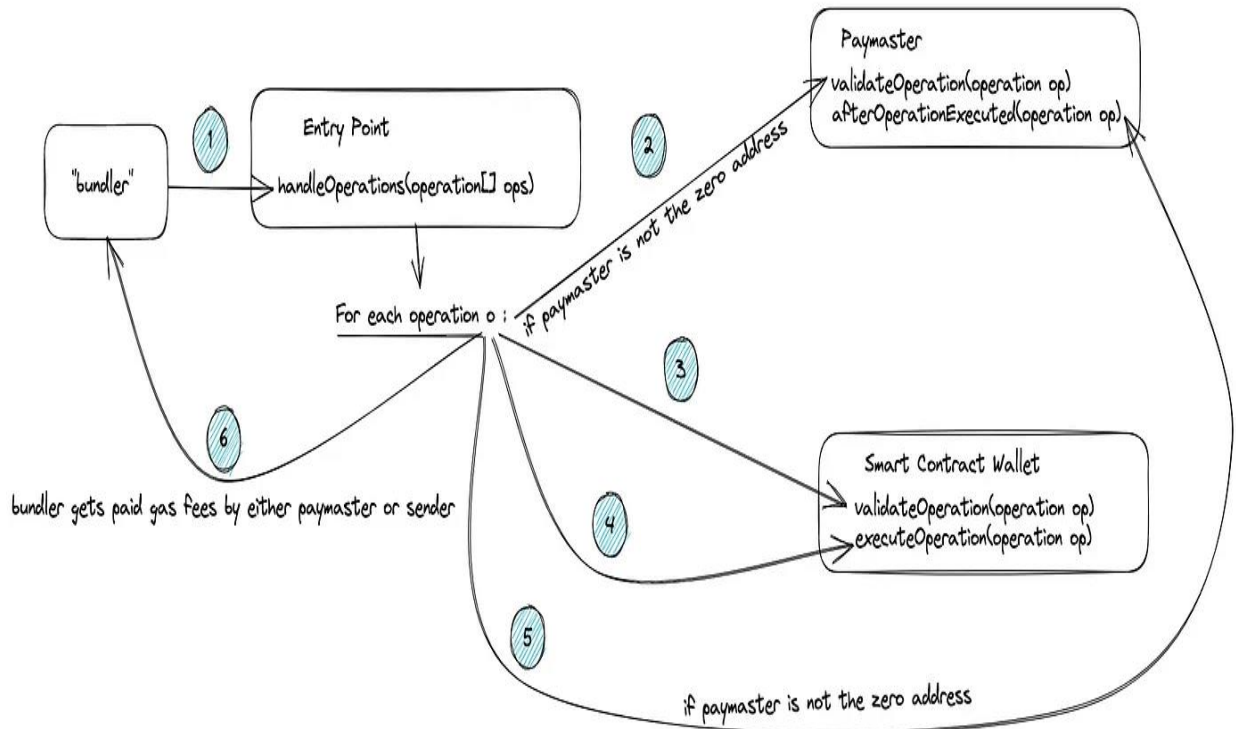
- Repayment Info:**
  - Borrowed Amount: \$199,999,900.02
  - Interest Incurred: \$29,999.98 (0.015% over 1 days)
  - Annualized Interest: 5.400% annualized rate
  - Maturity Date: 2/9/2023
  - Repayment Amount: \$199,999,900.00
- Warning:** The Ethereum Network requires two (2) wallet signatures in order to repay the bid.
- Steps:**
  - Approve Repayment
  - Repay

The modal also includes 'Cancel' and 'Approve' buttons.

**Source: Coinbase Asset Management.**

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**Figure 4: How EIP-4337 Works**



**Source: Coinbase Asset Management. Adopted from Hans Bhatia explanation.**

# Disclaimer

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