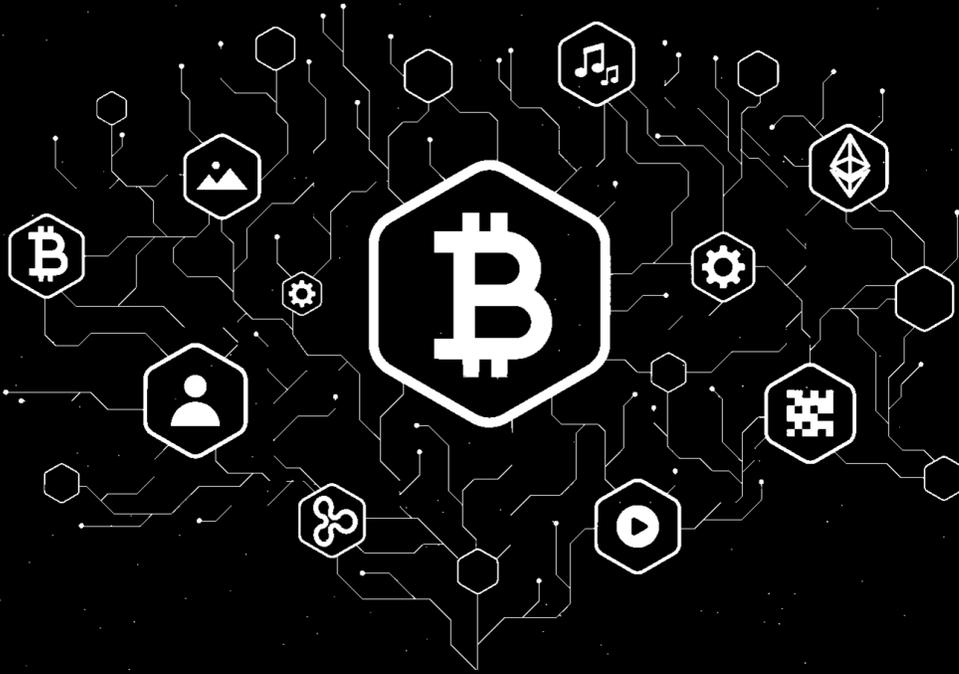




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## MARKET INTELLIGENCE

Cracks in the Binance Empire,  
Layer 2 Ethereum Networks Flip  
L1 In TPS, Ice Phishing Scam  
and How to Avoid + More

Published by Duke Banerjee

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# RESEARCH DISCLAIMER

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# Cracks in the Binance Empire

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Post the FTX fiasco, Binance is now an unchallenged Exchange in the global market and is now under the microscope of many. And there might be cracks appearing in this mighty empire.

From massive crypto withdrawals to falling revenue and from regulatory problems to faulty proof of reserves which they have introduced recently. Things are not looking suitable for CZ (Changpeng Zhao, CEO of Binance). Let's see the top 4 areas, or we'll say cracks in this empire.



## 1. Heavy Spending

We've seen from FTX that if an exchange is in trouble, it goes around buying everything. FTX wanted to buy BlockFi, and Voyager and even drop \$3 billion on Elon's Twitter deal.

And Binance is doing the same.

Here's a bunch of acquisitions Binance made:

- \$500 million for Elon's Twitter deal
- \$1.02 billion for Voyager Digital's assets,
- three big-name investments in — nGrave (cold wallets maker), Tokocrypto (Indonesia crypto exchange), and Sakura (Japan crypto exchange)

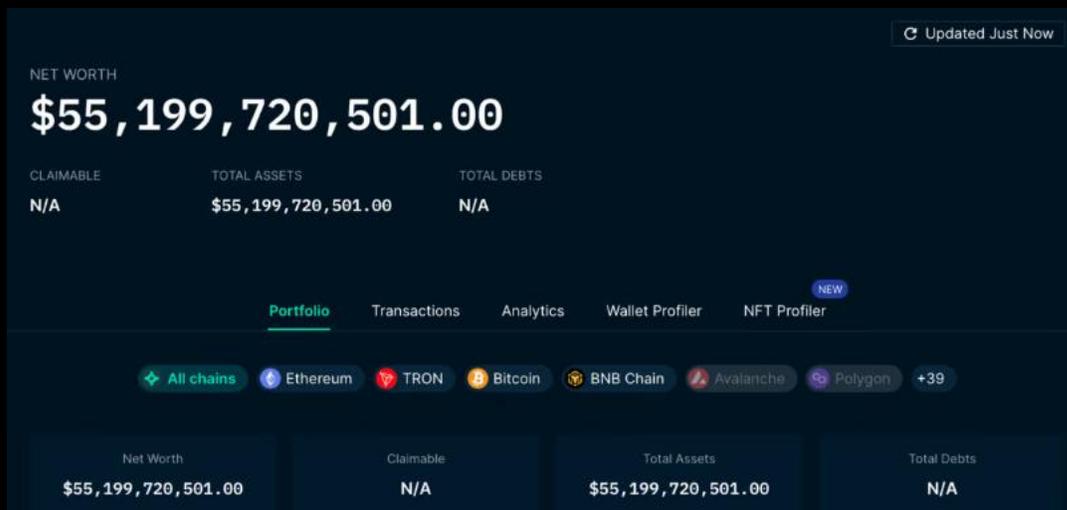
Although the acquisition is not a bad thing as market leaders tend to go on a spending spree during the bear market. But this pattern is too similar to the FTX one. However, this will make much more sense as we cover the other areas.

## 2. No Reserves + audits

If FTX taught us one thing, it's to look at an exchange's customer funds and immediately after the fiasco Binance was prompt in revealing their proof of reserves.

But over the past few weeks, it's been falling.

- November 10 [post-FTX] — \$70 billion
- December 20 [till today] — \$55 billion



And this is not due to the falling price of BTC, ETH, and BNB (top-3 non stablecoins in their reserves). These cryptos are down 3-10% in the same time as the reserves have gone down by almost 21%.

With addition to this :

- Outflows of \$12 billion in crypto over the past 10 days
- Possible payment of \$2 billion to FTX in bankruptcy proceedings

And it clearly indicates that owing FTX money does not look good in the overall outlook of this empire.

### 3. Volume game has gone wrong

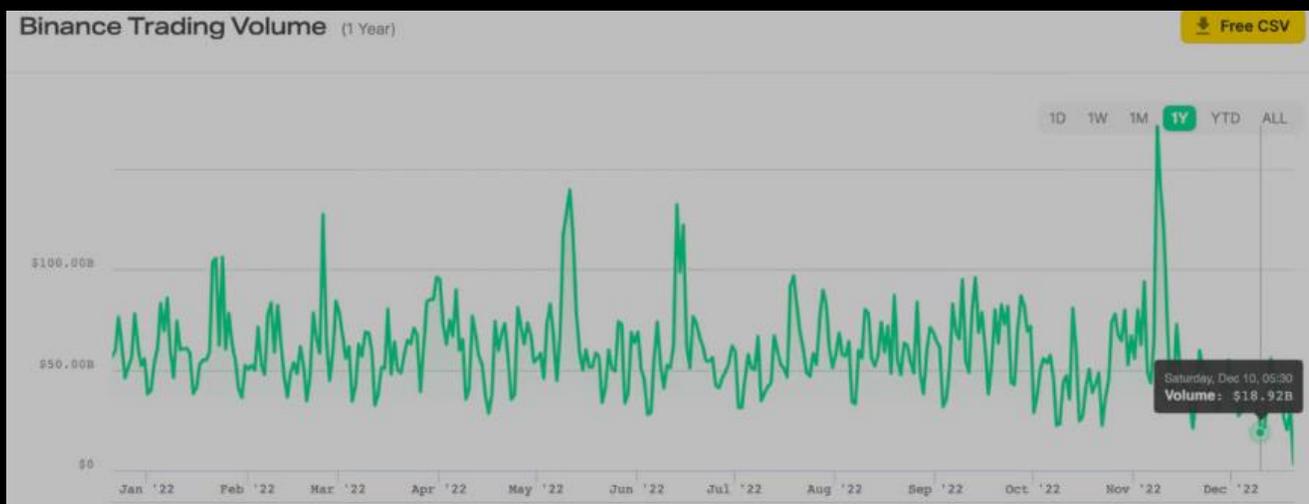
If we see overall, Binance has many things under its bucket :

- the exchange
- the issuer of BNB
- the validator(s) of BSC
- the one that runs CoinMarketCap

But over 90% of its revenue comes from the exchange which is a fact, and in case you are not aware exchanges are doing badly in recent times.

- 2021 → \$34 trillion in trading volumes
- 2022 → \$25 trillion in trading volumes (estimated)

Last year, the exchange made ~\$18 billion in revenue (from spot and derivatives fees). This year, it's estimated to make — \$13.2 billion in revenue. That's a 26% decline. And the story goes worse, in December 2022, Binance's volumes fell below \$20 billion a day, the lowest all year round.



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#### 4. Lack of transparency

So far, Binance is not clear about

- its audits
- its headquarters
- its executive team

Reuters tried to hunt down 14 of Binance's affiliates in various countries. Only 1 (the South African one) responded to the journalists.

The other units either — don't have a website and no even an office which is worrying. The Binance Spain office is an empty co-working space, and it has been empty for a month.

To summarise, these are the early warning signs of a worrying empire, and especially after the FTX saga, this industry and investors have become more cautious. It may not look good for Binance right now, but this increased awareness is good for the industry as a whole.

# Layer 2 Ethereum Networks Flip L1 In TPS

Layer 2 activity is increasing and has already surpassed Layer 1 Ethereum in some metrics, such as transactions per second.

Layer 2 networks have higher aggregate transactions per second (TPS) than Ethereum. This, however, does not imply overall activity on those networks. On December 20, there were 992,470 transactions on Ethereum, according to Etherscan.

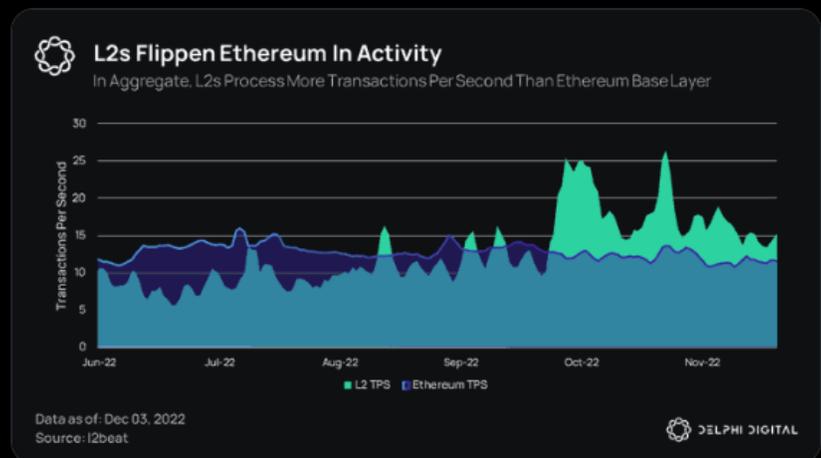
Delphi Digital, a crypto research firm, reported the 'flipping' on December 21. It went on to say that the top two layer 2 networks were Arbitrum and Optimism.

The chart shows that the flip occurred in late September but that it has remained above Ethereum TPS ever since. According to the chart, Ethereum currently processes around 12.5 TPS, and L2 networks combined process closer to 15 TPS. In late October, L2 activity and TPS peaked at 25 TPS. The difference is currently marginal, and the only real takeaway is that layer 2 TPS has been rising since August.



L2s have flipped the Ethereum base layer in terms of aggregate TPS.

@optimismFND, @arbitrum, @dYdX and @Immutable lead this effort.



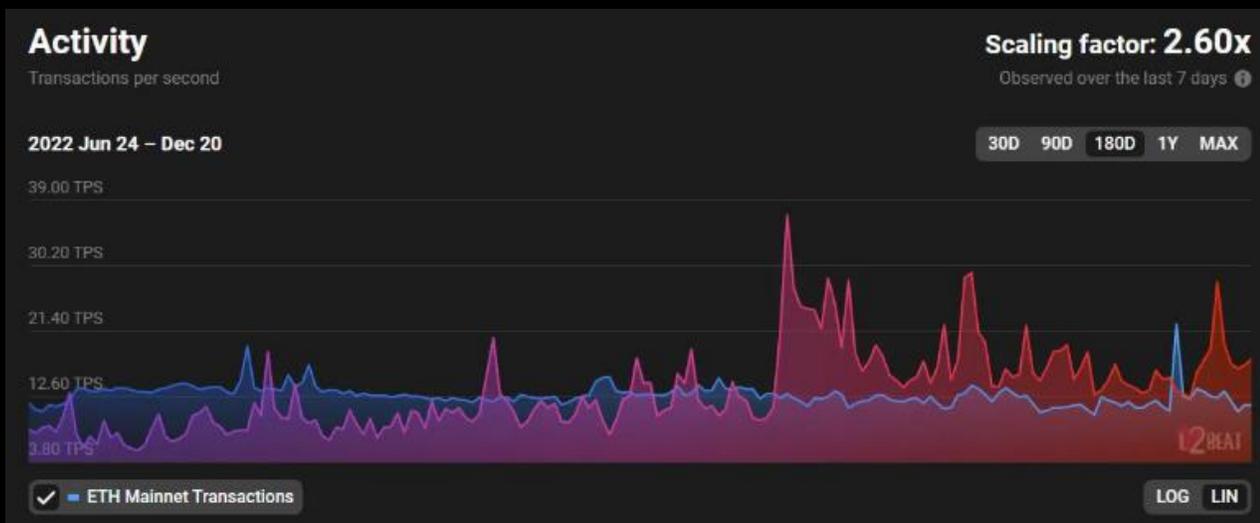
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## Comparing Layer 2 Networks

The number of TPS on Ethereum is currently fixed. When sharding is implemented on the network, it will only increase throughput. This is expected to happen in late 2023 at the earliest.

L2beat, a Layer 2 industry analytics platform, has launched a new activity tracker for the ecosystem. It currently reports that the average Ethereum base layer TPS is 11.49, while the L2 TPS is 17.68.

Furthermore, it confirms the increase in activity for all L2 networks studied since mid-October. In terms of TPS, L2 activity took off in August 2021.



The platform also stated that both layers of Ethereum processed over 152 million transactions. It also said that 58% of them occurred on layer 2.

Activity on Arbitrum and Optimism alone is close to flipping Ethereum L1 daily TPS, it noted.

## L2 Ecosystem Outlook

Since August, the total value locked in the layer 2 ecosystem has been declining. However, this is more likely due to falling crypto asset prices than to capital being drawn out of various networks.

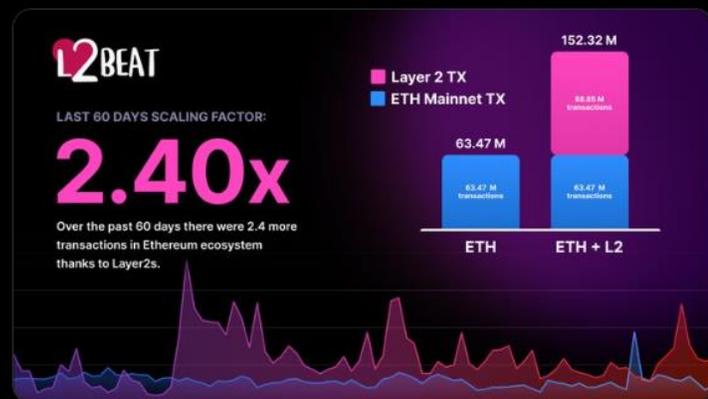
According to L2beat, the total TVL of all measured L2 networks is \$4.25 billion. Furthermore, this represents a 43% drop from the all-time high of \$7.48 billion in April.



The last two months have been special for #Layer2 in terms of activity.

Both layers of Ethereum processed a total of over 152 million transactions, 58% of which happened on L2.

@arbitrum and @optimismFND combined are also becoming close to flipping Layer 1 daily transactions.



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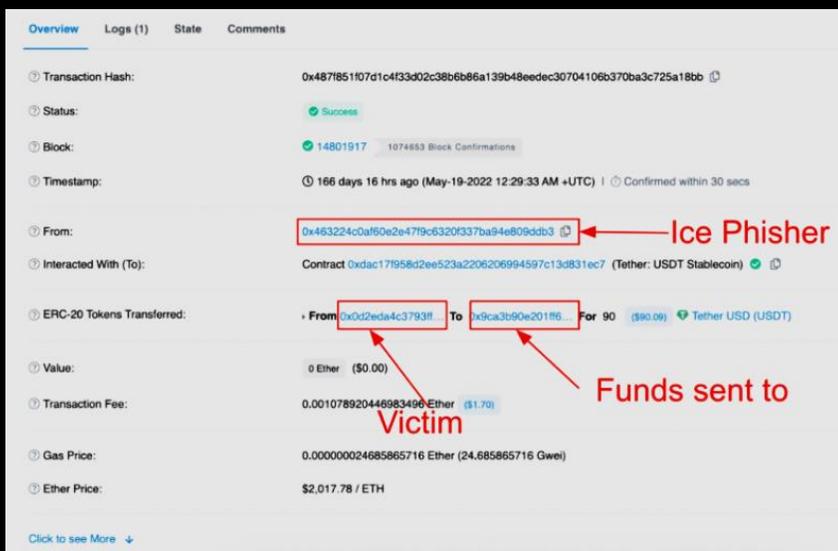
Arbitrum One dominates the market with a 54% market share and a TVL of \$2.3 billion. According to the platform, optimism ranks second with a \$1.14 billion TVL and a 27% market share.

# Ice Phishing Scam and How to Avoid

CertiK, a leading security-focused ranking platform for blockchain protocols and DeFi projects, claims that ice phishing is a type of scam that only exists in Web3 and poses a "significant threat" to the crypto community.

They have warned the crypto community to be on the lookout for "ice phishing" scams, which are unique phishing scams targeting Web3 users that were first identified by Microsoft earlier this year.

CertiK described ice phishing scams in a Dec. 20 analysis report as an attack that tricks Web3 users into signing permissions, allowing a scammer to spend their tokens.



CertiK advised investors to use a token approval tool and a blockchain explorer site such as Etherscan to revoke permissions for addresses they don't recognize to protect themselves from ice phishing.

Additionally, addresses that users intend to interact with should be checked for suspicious activity on these blockchain explorers. Users should only interact with official sites they can verify and be especially cautious of social media sites such as Twitter, citing a fake Optimism Twitter account as an example.

# Venture Capital Deals

Project	About	Funding Amount	Funded By
<b>Evertas</b>	The world's first cryptoasset insurance company	<b>\$14 million</b>	Polychain Capital, SinoGlobal Capital
<b>Nillion</b>	Nillion, a web3 startup aiming to build a non-blockchain decentralized network. While blockchains decentralize finance, Nillion aims to decentralize everything else and the rest of data	<b>\$20 Million</b>	Distributed Global, AU21, Big Brain Holdings
<b>Dogami</b>	Dogami, a web3 game that enables players to adopt and raise virtual dogs	<b>\$14 Million</b>	Xange, Blockchain Founders Fund
<b>Virtualness</b>	Virtualness, a mobile-first platform designed to help creators and brands navigate the complex world of Web3	<b>\$8 million</b>	Blockchange Ventures, Polygon Ventures
<b>SooHo.io</b>	SooHo.io, a provider of decentralized finance (DeFi) services	<b>\$4.5 million</b>	Woori Technology Investment



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