

TRENDS IN INVESTMENT BANK CRYPTOCURRENCIES TRADING 2018

FROM FAD TO POTENTIAL NEW FX INSTRUMENT CLASS

In 2017, cryptocurrencies entered popular consciousness. Since then, the capital markets industry struggled to make sense of cryptocurrencies both from a taxonomic and from a business model perspective. Discussion of cryptocurrencies in the capital markets context has largely been highly divisive, yet this report provides a more nuanced and measured discussion of the future of cryptographic payment coins as instruments within the context of investment bank (IB) FX trading business models.

GreySpark Partners identifies four categories of cryptocurrencies with differentiated qualities and functions. In 2018, some cryptocurrencies populate more than one of these categories:

PAYMENT COINS

Used for payments in commerce.

UTILITY TOKENS

Holding value within a closed ecosystem.

RIGHTS TOKENS

Creating an obligation between counterparties.

TOKENISED ASSETS

Real-world assets de-materialised into a cryptographic token.

25% of Tier 1 IBs, in 2018, have or are developing crypto-coin trading franchises due to a number of key constraints holding back other entrants:

1

REGULATIONS

until IBs have greater regulatory clarity, they will not risk regulators' wrath.

2

CUSTODY

Although de-materialised asset custody is well established, best practices for payment coin custody are not established.

3

SCALE

Payment coin market cap is less than 1/200th of US stock market cap, providing inadequate incentive for established IBs.

Although only 25% of Tier 1 IBs formally provide or are actively developing crypto-coin trading services, a much larger share provide access through cryptocurrency ETPs. GreySpark anticipates that within a decade, some payment coins will become standard Tier 1 FX execution franchise products on par with fiat currencies.

The cryptocurrency landscape has evolved. AS of Q4, 2018:

>900

CRYPTO-COINS

12 COINS WITH >\$1 BN MARKET CAP

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