When will the trillion dollar club take the crypto plunge?

When an internal memo revealed in April that BlackRock was reshuffling its top brass as part of a move to prioritize its higher-fee paying alternatives investments business, some financial services industry watchers wondered if the world's largest money manager be might ready to formalize its interest in cryptocurrency.

It was in mid-2018 that BlackRock CEO Larry Fink first set tongues wagging by telling Reuters that the $6.5 trillion manager was a "big student of blockchain". At the same time media reported that BlackRock had set up a working group tasked with investigating cryptocurrencies like bitcoin and the blockchain technology that underpins them.

Even this relatively minor revelation was enough to push bitcoin trading up by as much as 5% in the days after it became public. The prices of ethereum and ripple, the second- and third-largest digital assets by market capitalization respectively, also ticked up slightly, a sign perhaps that the market is eagerly awaiting any crypto maneuver BlackRock makes.

Other institutional investors are also eyeing off opportunities in the burgeoning digital asset sector on the back of strengthening prices. After 2018's horror "winter of crypto," which was marked by heavy losses, bitcoin has doubled so far this year, and is now sitting at around $9000 per bitcoin. Following suit and making significant gains are other major cryptocurrencies like Bitcoin cash, Litecoin and Ethereum.

According to a recent survey by Fidelity Investments, 47% of institutional investors view digital assets as having a place in their investment portfolios, and about 22% already have some exposure to digital assets.

One big finance name who has already thrown his weight behind the sector is billionaire Steven Cohen. Bloomberg reported in July 2018 that his Cohen Private Ventures had invested in a cryptocurrencies and blockchain-focused hedge fund named Autonomous Partners. The fund founded by crypto early adopter Arianna Simpson, also counts Union Square Ventures, Coinbase Inc. Chief Executive Officer Brian Armstrong and Craft Ventures Co-Founder David Sacks amongst her backers.

That said, it's not just the financial set dipping its toes into the digital asset waters, Facebook caused a stir in June when it revealed the details of Libra- its global payments system based on cryptocurrency. When it launches next year the social media platform's more than 2 billion users will be able to shop or transfer money with nearly zero fees using digital wallets provided by Facebook.

While Forbes predicts the global payments system will be forever changed by Facebook's foray into digital currency, for institutional investors barriers to entry still remain. For example, the sector is still awaiting clearer regulation, and there remains a lack of prime brokers and settlement systems for crypto trading. The current model where a trading counterparty is also the custodian of the assets required for the transaction remains inherently risky, as the possibility for assets to be stolen if there is a security breach is preventing more institutional investors entering the space.

More positively for the sector, institutional-grade custody solutions, which in the past were lacking, have started to arrive. In 2018 Fidelity became the first big name to enter the crypto custody space when it announced it was launching a separate company called Fidelity Digital Asset Services to provide institutional clients, like hedge funds and family offices, with custody for cryptocurrencies including bitcoin. Coinbase Custody officially opened for business in 2018 with its first customers being crypto hedge funds, exchanges and Initial Coin Offering (ICO) teams.

For its part BlackRock still remains coy about its plans for crypto, with its CEO Fink in 2018 saying that the fund manager did not see a "huge demand for cryptocurrencies" and later that year adding BlackRock would avoid a bitcoin ETF until cryptocurrencies become "legitimate."

Nevertheless, other investors seems more willing to pursue crypto-based strategies- with Fidelity's research finding that four in ten respondents are open to future investments in digital assets over the next five years, what is certain is that investors will be seeking forward looking financial players to work with as the crypto investment infrastructure advances.

CUSTODY NO LONGER A STUMBLING BLOCK

A lack of properly regulated custodial solutions has in the past inhibited the widespread adoption of crypto as an asset class, but panelists told the TradeTech audience that institutional-grade custody solutions had most certainly arrived, with many more predicted to join.

In 2018 Fidelity became the first big name to enter the crypto custody space when it announced it was launching a separate company called Fidelity Digital Asset Services. The firm, which has over $7 trillion of client assets under administration, said that it will provide institutional clients, like hedge funds and family offices, with custody for cryptocurrencies including bitcoin. That same year Coinbase Custody officially opened for business with its first customers being crypto hedge funds, exchanges and Initial Coin Offering (ICO) teams.[AH1]

In a sign of further growth in the crypto currency space, Intercontinental Exchange (ICE), the owner of the New York Stock Exchange, in April announced its cryptocurrency trading platform Bakkt had acquired Digital Asset Custody Company (DACC)- a crypto custodian services company. At the same time Bakkt filed an application to enable it to serve as a Qualified Custodian for digital assets with the New York Department of Financial Services.

For the panel, these were all signs that crypto custody was maturing. “That obstacle has been surmounted – the lack of access to crypto-focused custodians is starting to become much less of an issue than it was in the past,” van Wingerden said after the panel.

SETTLEMENT SYSTEMS STILL LACKING, BUT OPTIMISM REMAINS

While there have been advancements in crypto-focused custody, the panel remained concerned about the lack of a prime brokers and settlement systems for crypto trading. The current model where a trading counterparty is also the custodian of the assets required for the transaction remains inherently risky, the panel said. The possibility for assets to be stolen if there is a security breach remains a key barrier preventing more institutional investors entering the space.

Connectivity and API availability was another point of discussion on the panel, with the consensus that current offerings are of poor quality and require institutional investors to run multiple web interfaces at once in order to trade. Additionally, most crypto exchanges still do not leverage the FIX protocol, meaning there is still additional work to be done in order to create better connectivity.

Despite these challenges, the panel was upbeat about the long-term future of crypto. For example, van Wingerden said he was optimistic about Security Token Offerings (STOs).

“The ability to digitize what were previously illiquid assets like private equity or collectables is certainly getting a lot of mindshare, and it will be interesting to see how important they become,” he said after the panel.

Bitcoin’s “gold-like” characteristics and the fact that cryptocurrencies are not correlated with traditional markets remains an attractive feature, van Wingerden said. He added that this was particularly true in countries like Venezuela where hyperinflation has hit its currency hard. “These aren’t necessarily institutional investors, these are people using it in their daily lives,” he said.

Another reason for optimism is that the time spent during the “crypto winter” by companies like Caspian to iterate and build out their offerings for institutional investors in anticipation of a turnaround. Van Wingerden said the ongoing “crypto spring” recovery has also meant more demand for these enhanced tools, as sophisticated investor sentiment gradually increases.

“Caspian raised $19.5 million last October, of which part was used on research and development for our platform. Against this backdrop, now is the time for companies like ours to reap the rewards of the hard work during the winter and work even more closely with our clients who want access to sophisticated trading tools such as those offered by the Caspian platform,” he said.

Caspian is a full-stack crypto-asset management platform tying together the biggest crypto exchanges in a single interface, so as to facilitate investments in crypto instruments for newcomers and veterans alike. The joint venture between heavyweights Tora and Kenetic brings to the table a wealth of experience in asset management, accumulated over decades of building and operating trading platforms and technologies.

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