

Institutional Crypto-financial Products and Services

Throughout the latter part of 2017 and deep into 2018, crypto market watchers repeatedly hailed the arrival of so-called “institutional money.” While a large number of crypto investment funds did spring up and many venture capital firms turned their focus to crypto companies during this time, their numbers were not as significant as imagined¹⁷ and the sharp influx of money from professional investors failed to materialize.

Now, nearly two years on, it is still too early to speak of a sustained wave of investment from institutions. Several factors have contributed to this situation:

■ **Lack of regulatory clarity regarding cryptocurrencies**

■ **Low level of blockchain and crypto technical understanding**

■ **Lack of traditional crypto-based financial products**

■ **Fear of potential KYC/AML complications**

Regulatory approval, and in particular, fears of market manipulation, have been a major stumbling block to the approval of crypto exchange-traded-funds (ETFs) in the United States, where, for instance, Bitwise has faced a roller-coaster process trying to gain the SEC’s blessing for its product.¹⁸

There are, however, other signs that institutional-grade products and services are on the rise. Crypto custody providers are now able to offer banks and asset managers the level of security needed to satisfy their requirements. For a crypto derivatives trading platform such as the Intercontinental Exchange-supported Bakkt this is key. Bakkt’s physically-settled monthly Bitcoin futures contracts, despite their slow start, have steadily increased in popularity – another sign that once the pieces are in place, there is strong potential for institutional crypto products.

In Switzerland, the country’s major stock exchange, SIX, has listed ten crypto-based exchange-traded-products (ETPs) over the last 18 months. At the same time, SIX itself has begun intense development work on its next-generation infrastructure, the SIX Digital Exchange, which has the aim to eventually trade not only cryptocurrency-based traditional financial products, but also an entirely new asset class of tokenized assets.

Mass adoption of crypto ETPs and ETFs may still be a few years away, but 2020 is likely to see more foundational work done, thus preparing the way for more institutional money to flow into the market.

¹⁴ <https://www.theblockcrypto.com/post/47230/brics-member-nations-propose-creating-a-cryptocurrency-for-payment-settlements>

¹⁵ <https://www.theblockcrypto.com/linked/46597/singapores-central-bank-jpmorgan-develop-a-blockchain-system-for-cross-border-payments>

¹⁶ <https://www.bitcoinsuisse.com/research/decrypt/transaction-fees-markets-for-block-space>

¹⁷ <https://www.pwc.com/gx/en/financial-services/fintech/assets/pwc-elwood-2019-annual-crypto-hedge-fund-report.pdf>

¹⁸ <https://www.coindesk.com/what-to-make-of-the-secs-latest-bitcoin-etf-rejection>