

BitSpread: Capital protected strategies offer a safe and efficient way to invest in the cryptocurrency space

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Following the launch of the first ever **capital protected crypto investment strategies** earlier this year by blockchain asset research and advisory firm, BitSpread Financial Solutions, SRP spoke to the firm's chief executive Lionel Fournier (*pictured*) about providing access to crypto assets via capital protected investment strategies using sophisticated derivatives have been utilised in the crypto space, and his plans to grow this space.

BitSpread started building investment strategies on crypto assets in 2014, and since then the firm which operates from London and Singapore, has successfully launched several strategies that have attracted investors to a point where they have had triple digit figures invested in them.

"Typically, investors in our strategy have approached us on a reverse enquiry basis," says Fournier. "Our core investment strategy has been to arbitrage across cryptocurrency exchanges around the world. Some arbitrage opportunities have now shrunk because more new players are jumping on the bandwagon, but we had several years of very good performance and results for us."

BitSpread is now developing a new range of more sophisticated absolute return strategies designed for and targeted at professional and institutional investors, family offices, private banks and asset managers who "want to enter the cryptocurrency space in a safe and efficient way".

BitSpread has two businesses which are responsible for creating strategies aimed at different risk profiles – the asset management business, and BitSpread Financial Solutions – which launched in november 2018 specialises in financial engineering, customised investments, and hedging and financing solutions for blockchain assets for professional investors.

BitSpread Financial Solutions is a UK entity regulated for developing derivative-based strategies and the related advisory activities. BitSpread Financial Solutions operates as an appointed representative of an FCA authorised firm, which ensures that complies with relevant FCA regulation such as those relating to marketing materials and KYC/AML. In addition, the firm is applying to the FCA for authorisation directly, "so that we're able to trade cryptocurrencies and derivatives on our own balance sheet", according to Fournier.

Target market

"[We are] is working on developing a range of derivative structured solutions and we have plans to bring to market traditional payoff-based structured strategies," says Fournier. However, the firm believes that the traditional structured notes market is not ready for cryptocurrencies as an asset class.

"Under a typical MTN program, the issuer enters into an OTC derivative that is linked to the underlying reference asset (in our case, Bitcoin) and issues a note to investors that has a payoff linked to the payoff of that derivative," says Fournier. "The problem with cryptocurrencies as an asset class is that at the moment the OTC derivatives market for cryptocurrencies is insufficiently developed to support this."

With almost 20 years of financial engineering experience in equity derivatives and multi-asset structuring most recently as **head of multi asset structuring Europe, Middle East & Africa (Emea)** at Citi, in London, Fournier sees BitSpread's move to develop a derivative based offering as "a natural evolution in our business".

"We see cryptos as a nascent asset class that will sit alongside other traditional asset classes in the future," says Fournier. "To us there is no question about that. There has been a massive growth in the crypto market and we see it as the 'next frontier'. As with any new market, it is crucial to understand the dynamics and the actors. Currently there are only listed derivatives on bitcoin and ethereum, but these are just two cryptocurrencies and there are many others for which expect a derivatives market to develop over time."

As the market grows, the firm wants to be able to take positions selling derivatives, and hedging some of the risks in the market.

"Because we have been operating since 2014, we have extensive connections with the ecosystem through a global presence – our biggest operation is in Singapore," says Fournier. "We are trying to apply our technology to this asset class to understand its dynamics."

Operational framework

The groundwork to create a functioning operational market structure will be key to provide a secure trading environment to support the growth of this asset class.

"[The] institutionalisation of custody for cryptocurrency is happening as we speak," says Fournier. "There are already very strong and robust processes being put in place to store cryptos with multiple encrypted keys by institutional players moving into the cryptocurrency markets in addition to the existing cryptocurrency market players such as Coinbase that offer sophisticated custody solutions."

A number of recent initiatives from different quarters demonstrate that this work is steadily ongoing and front-run by tier one market players including BAKKT, the cryptocurrency platform created by Intercontinental Exchange, the owner of the New York Stock Exchange (NYSE), which offers global custody network to enable its customers to buy, sell, store and spend digital assets in a safe way.

Other initiatives include the new digital asset division to provide custody solutions with cryptos launched by Fidelity, as well as the announcement of an imminent launch of virtual coins by JP Morgan and Facebook.

"We see developments in key areas which suggest that additional parties are positioning themselves to participate in this market, and should give reassurance to investors," says Fournier, adding that after concrete applications of blockchain technology in finance, and the entrance of large incumbent financial institutions, the third pillar to support the market growth comes from regulation.

"The technology around cryptocurrency and the cryptocurrency markets in general are obviously developing at a rapid pace," says Fournier. "But key global financial markets regulators certainly seem to be active in consulting with players and developing rules in order to provide better clarity and certainty for both players and investors."

BitSpread: it's time to bring to market a second generation of strategies linked to cryptos

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In the second part of an interview, Lionel Fournier (*pictured*) chief executive, BitSpread Financial Solutions, the firm behind the first ever [capital protected crypto investment strategies](#) launched earlier this year, talks about the challenges to grow this space, the competitive landscape and how structured products could open up new opportunities for issuers and investors alike.

At the moment the crypto-currency market is a specialist market, where there is a convergence of fintech specialists and investment bankers coming together with smart technology to transact and invest.

"This is all happening primarily in the background at the moment but, as the market takes off as we expect, those specialists currently positioning themselves will be already established and ready to capitalise on the increased market activity," says Fournier. "We are already observing institutional players slowly dipping their toes into cryptocurrencies markets, and we expect that this will continue and increase over time."

However, according to Fournier, it is possible that there could be an event driven catalyst that could cause a significant acceleration of the next wave of development in the market, "such as the approval of an ETF by the SEC for US institutional investors, or the launch of physically settled futures by an exchange".

Competitive landscape

BitSpread is very interested in the Swiss private banking market because it is the most developed of such markets in Europe and there is a growing interest there from high-net-worth individual (HNWI) investors for crypto assets but, until recently, there was a lack of products available to investors.

"Now there are several cryptocurrency ETNs and ETPs in Switzerland already (for example, from Swissquote/Leonteq and Six/Amun) and also on the OMX Nasdaq," says Fournier. "These are all delta one products but they are a start and show that there is demand in those markets for cryptocurrency related products, and we believe that now is the time to bring to market a second generation of such products with other features such as capital protection, and other traditional structured product features."

BitSpread has positioned itself to be a leading player in the crypto market and wants to provide strategies with a different profile.

"[That is] why we have started developing structured solution strategies with a defensive component," says Fournier. "We want to build a comprehensive range of such strategies and also offer other derivative solutions to our clients."

The firm's target market is broadly made up by two types of clients – private banks and asset managers, on one hand, and other sophisticated and professional participants in the crypto market on the other hand.

"[There is demand from investors] who may want to buy protection to hedge their positions and exposure to this market or invest crypto wealth in a more sophisticated manner than just going long or short," says Fournier, adding that in the new environment, there is a need to fill a gap with a second generation of strategies which will enable the firm "to deploy and leverage our financial engineering capabilities".

"Some of our new strategies are also based on arbitrage, but are more sophisticated in that they go beyond spot arbitrage across exchanges," he says. "We think structured solution strategies are a very interesting proposition for this market. For instance, we are currently working on a "capital protected" strategy which offers, over a defined period, a return that is linked to any upside on bitcoin over that period, but with a fixed downside."

Cryptos 2.0

BitSpread Financial Solutions is currently working on a strategic partnership with a bank to act as a distributor of the capital protected strategies to their client base of professional investors.

"We are also seeking other similar distribution partnerships," says Fournier. "The market is moving fast and we also see the asset management business of BitSpread as a key factor for our growth. Our asset management strategies include strategies that are absolute return, aimed at generating alpha to provide a better sharpe ratio for investors than may be available in say FX or equities.

"We believe that an absolute return strategy on crypto with a consistently attractive sharpe ratio that is almost entirely decorrelated with traditional asset classes is a compelling proposition for professional and institutional investors."

The firm has been working for some time on developing its new strategies and now in the process of selectively launching these strategies, according to Fournier.

"But we continue to look for new opportunities to apply traditional structured product and financial engineering concepts to the developing cryptocurrency markets," he says. "Reverse convertibles and autocalls, for instance, can offer interesting risk profiles depending upon investor sentiment and market cycles."

Fournier believes there is scope to use some of the most popular payoff structures to deliver products linked to crypto-currencies.

"We think that the market should offer income strategies in addition to growth strategies," says Fournier. "Autocalls for instance are not currently offered in the market, but we believe that they are where the market is going. There is also scope for correlation products once the market develops more, but what we're doing now is already pretty innovative and sophisticated relative the stage of cryptocurrency market development."

The firm's ultimate goal is to provide professional investors with different ways to manage the risk of participating on an erratic, volatile asset class.

"In time, we may consider structured products for the retail market, considering that there is already a substantial demand from retail investors for structured products in other asset classes, but the first step for us would be for regulators to provide a clear framework for the regulation of such products on cryptos and offering them to retail investors," concludes Fournier.

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