

Capturing opportunities in Digital Assets Revolution: a two-leg strategy?

Demand for **Digital Assets**¹ in multiple forms is **on the rise for institutional investors and asset servicers**.

Even though volumes are still limited (e.g. trading volume '20-'21 ~330 bUSD, largest Asset Manager to date gathers about 40 bUSD) recent growth has been spectacular (e.g. ~700 % increase of market cap. since '20, X5 in trade volumes). This **demand has been notably fueled by asset volatility, asset diversification, retail “gamification” and growth in Non-Fungible Tokens (NFTs), and supported by better technology** (e.g. Ethereum 2.0). Bitcoin is now recognized as an asset class and regulation on its way to treat it as such (cf. MiCa in Europe for '24 that has just been voted, fragmented regulations in Asia that captures the lion's share of Digital Assets adoption with more than 40% market share in crypto-currency flows).

Asset and Wealth Managers have started embracing digital assets in different forms with growing exposure across 3 segments:

Crypto holdings (cf. current Bitcoin market capitalization ~1,2 T USD with 130% 3-year growth rate; ~50 bUSD of AuM in the US for top 5 players²)

Tokenized Private Assets (i.e. Private Equity, Real Estate, Venture Capital) as Private Assets still represent an untapped opportunity (1,5 X size of listed equities and debt securities worldwide)

Bitcoin ETF via dedicated platforms (cf. legacy managers such as Fidelity, or new digital entrants such as NYDIG)

In turn, Securities Servicers are coerced into providing servicing at both ends

of the value chain from token issuance to digital assets custody of this new asset class. Several traditional actors are positioning themselves alongside FinTechs and partners to cope with this new demand (e.g. JP Morgan with Fidelity and Paxos, Northern Trust and Standard Chartered Zodia Custody with DMG Petra platform, SocGen FORGE).

Nevertheless, several structural unknowns remain including:

The evolution and the right balance between Centralized Finance vs. Decentralized Finance (e.g. about 100 + CeFi vs. 200 + DeFi exchanges currently³), Blockchain is meant to be decentralized in a “democratized mindset” whereas regulation is prone to centralization in an “oversight mindset”

The reality and materiality of the connectivity between blockchain native financial infrastructures, “legacy” financial infrastructure and the emerging metaverses. Even though there is a case for the “blockchain-isation” of financial markets (e.g. massive equity trading costs decrease – 20 – 30% in the mid-term and disappearance of Clearing), long is the road to align all parties to harmonize and evolve “legacy” infrastructures (e.g. conflict of interest, regulation). And as we speak two new worlds emerge: blockchain native crypto market infrastructures and metaverses. In essence these two worlds might not want to reconcile with the “old world”. Should you ask millennials they would be inclined to trade crypto assets within metaverses with “closed connectivity” between metaverse and [traditional] financial system

In this framework, we believe the “right strategies” for asset managers and securities servicers should be rooted into clear and present issues to address (e.g. what is the “long lasting” demand and what are the issues blockchain is really meant to solve). We believe it should include two legs:

No regret tactical moves to accommodate short term demand. For instance:

- Focusing on “no brainers” (e.g. Digital Assets servicing regulatory licensing, Private Assets)
- Adapting “Ops&IT” infrastructure tactically partnering with relevant FinTechs (e.g. Taurus, Fireblocks, Metaco)

Involvement into crypto-market infrastructure development with peers and partners. For instance:

- Making sure infrastructure is agnostic to external developments (e.g. CeFi vs. DeFi, keys, protocols)
- Reconciling digital asset strategy with greater firm ambition and risk (e.g. working out a solution across business silos, compliance alignment)

We trust that that there are, as least, two invariants to achieve this two-leg strategy:

Having a structured “Innovation Watch” built on ecosystems of ecosystems to maximize ideation inputs coming from the outside world

Building up internal talents to be able to accommodate this innovation, filter, prioritize and make it happen where legitimate

¹ Crypto-currencies, stable coins, securities tokens

² Top 5 Digital Assets Managers: Grayscale, Pantera, Bitwise, Galaxy, Wave)

³ Top 5 Centralized Exchange: Binance, Huobi, OKEx, Coinbase, Kraken; Top 5 Decentralized Exchange: DEX.top, OpenLedger, Waves DEX, Bisq, IDEX

Let's get in touch to start the adventure