

Digital Assets

IN FOCUS 2020

INSTITUTIONAL GROWTH

People moves and increasing demand drive market maturity

MARKET INFRASTRUCTURE

Eliminating exposure to credit risk from exchange venues

OPERATIONAL SUPPORT

Administrative burden grows as digital assets expand

Featuring Bitfinex | Copper | Koine | Market Synergy | Trustology

Operational support gains ground as crypto develops

Interview with Alex Batlin

The digital asset space has expanded to include multiple cryptoasset types, blockchains and a variety of centralised and decentralised exchanges – the administrative burden of which has grown exponentially for investors. As larger investors such as asset managers and family offices look to increase their trading activity in the digital space and diversify their portfolio, services provided by third parties to support their efforts are gaining importance.

When Bitcoin first came to market in 2009, it was the only crypto asset available and investors were not focused on trading it as such. Due to it being new, they took a buy and hold approach and the go-to insured private key custody solution at the time was cold storage – a physical offline vault.

The market has since developed dramatically. Alex Batlin Founder and CEO of Trustology discusses: “As the crypto winter passed, investors wanted to make money on Bitcoin beyond capital growth. This meant the inclusion of borrowing, lending and hedging mechanisms. People also wanted to increase their trading activity through margin calls – trading Bitcoin either on spot or through derivative contracts.”

For this to happen, assets needed to be transferred at speed – something which previously was not a priority. “Before, you had 48 hours to ask your cold custodian to transfer assets as few wanted to actively trade it. Now, however, you need to trade a lot more quickly to make those margin calls and fund positions on exchanges with digital currencies. All these things

require velocity and capacity to execute transactions much more quickly,” Batlin explains.

He goes on to outline the further evolution which has seen the proliferation of asset types and trading venues: “There are now thousands of different coins on tons of different networks. The variety is huge and investors need to worry about managing all of them as each one has a slightly different wallet that’s native to that platform and usually the user experience is poor.”

In addition, there are now several venues for trading, lending and borrowing. As yet, no single venue has enough liquidity to support large trading volumes, therefore managers need to trade on multiple exchanges. Further, as the market matures, the assets increase in value and may become prey for hackers.

These developments mean the crypto market is growing, and asset managers have more opportunity to generate alpha. However, they also result in a greater administrative burden, which managers are often not trained to handle or lack the technical expertise to navigate. The market is, therefore, seeing the emergence of crypto custody service providers like Trustology, offering the security and operational support needed in managing private keys for asset managers looking to actively trade in digital assets.

“We’ve created a secure, segregated key and transaction management system which allows managers to generate multiple wallets and work with assets on-exchange,

on-chain and across decentralised finance (DeFi) protocols. With on-chain assets, we safeguard private keys on the client’s behalf. For on-exchange assets, we manage all client withdrawals and transfers and allow clients to create controlled environments (“walled gardens”) across exchanges using enforced multisig and whitelist controls.”

“Working with us allows asset managers to raise more capital from investors because it raises investor confidence in the manager’s operational capabilities i.e. mitigating holding and fiduciary risks. Also, their time is precious and instead of managing manual and cumbersome tasks, they can focus on

what matters – generating alpha,” Batlin concludes. ■



Alex Batlin
Founder & CEO, Trustology



Alex Batlin is the CEO and Founder of Trustology. A self-confessed technology geek, Alex is an entrepreneur at heart with extensive banking and blockchain experience and tenure. Previously, at BNY Mellon, Alex was Blockchain Lead and Founding Head of the Emerging Business & Technology team. At UBS, Alex was founding head of a blockchain-focused FinTech Innovation Lab in the UK’s Level 39 accelerator. Alex co-founded Utility Settlement Coin, Enterprise Ethereum Alliance and the Trusted IoT consortia, and was featured in the 2015 FinTech Finance35 and 2016 FinTech 40 lists.