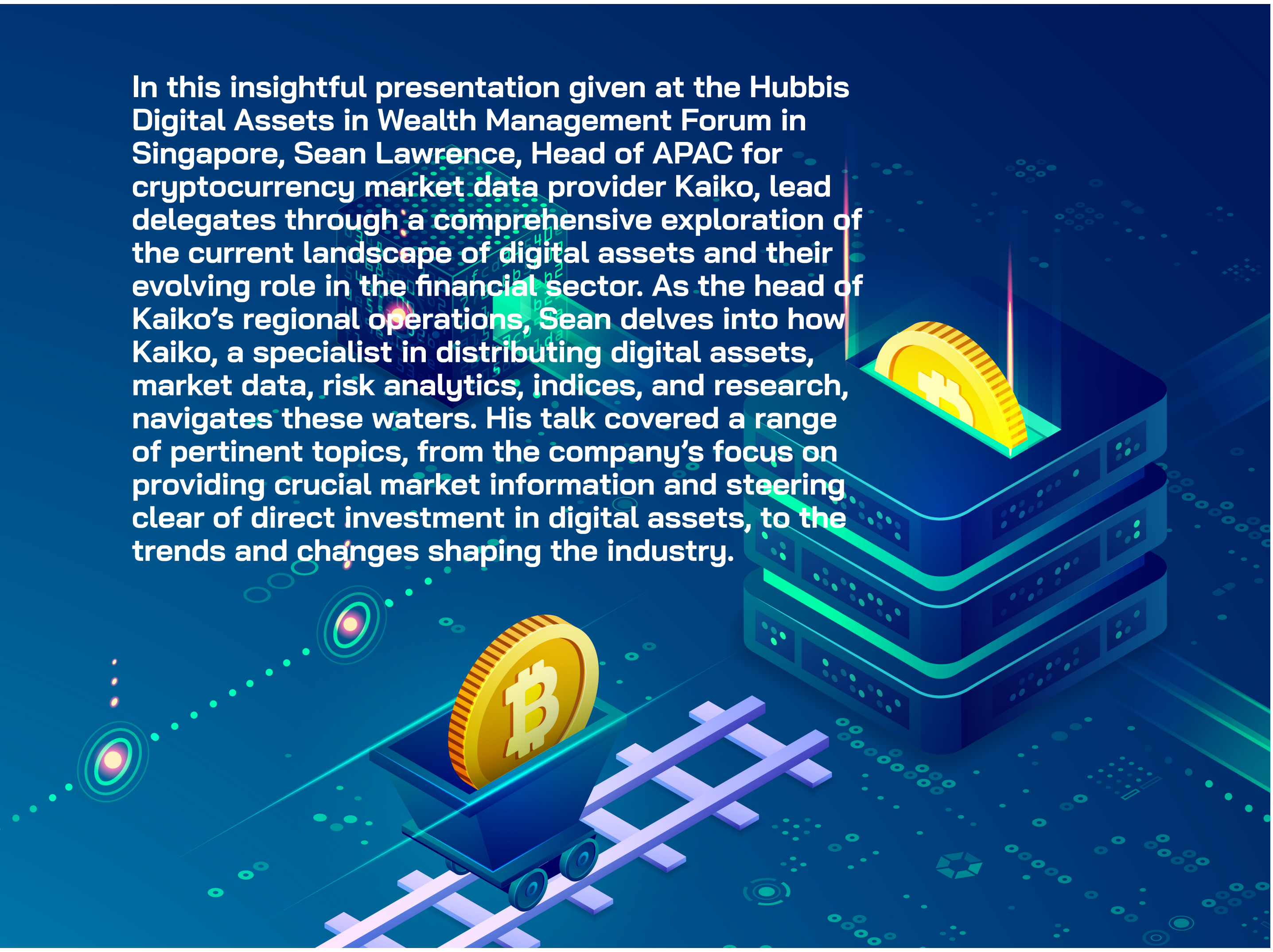
Link to Article on website

# The Nexus of Blockchain and Asset Management in the Future



In this insightful presentation given at the Hubbis Digital Assets in Wealth Management Forum in Singapore, Sean Lawrence, Head of APAC for cryptocurrency market data provider Kaiko, lead delegates through a comprehensive exploration of the current landscape of digital assets and their evolving role in the financial sector. As the head of Kaiko's regional operations, Sean delves into how Kaiko, a specialist in distributing digital assets, market data, risk analytics, indices, and research, navigates these waters. His talk covered a range of pertinent topics, from the company's focus on providing crucial market information and steering clear of direct investment in digital assets, to the trends and changes shaping the industry.

GET IN TOUCH

[View this Presentation On Demand]

[View Sean Lawrence's LinkedIn Profile]

[Find out more about Kaiko]

**SEAN LAWRENCE**
*Head of APAC*
Kaiko

## Opening his presentation,

Sean set the scene with an introduction to himself, and Kaiko. "With 30 years in investment banking, I recently delved into the crypto world, realizing its impending significance. I currently oversee Kaiko's operations in the region," he said. Kaiko, explained, specializes in distributing digital assets, market data, risk analytics, indices, and research. The firm's research is renowned for its award-winning, data-driven, objective analysis. This underscores the quality of data the firm offers, he says, which is available for direct download or subscription at [www.kaiko.com](www.kaiko.com).

## Kaiko's Focus and Market Perspective

Kaiko's primary focus is on providing information, Sean reports, steering clear of investing, dealing, or advising in digital assets. The company's extensive client base offers them a distinctive perspective on the digital assets market, a viewpoint that is relatively rare. "Despite visible industry setbacks, such as the collapses of firms like FTX, and challenges faced by Binance and JPEX, the overall trajectory of digital assets remains largely unchanged," Sean explained. This assertion is backed by Kaiko's interactions with a diverse range of professionals from traditional finance asset managers, brokers, banks, exchanges, to crypto-native experts. Sean notes that the sector's course has been consistent, albeit with some significant modifications, details of which he plans to elaborate on.

Delving deeper into the day-to-day of Kaiko, Sean explained that the company has been busier with traditional finance (TradFi) institutions than with crypto. These institutions typically focus on one of two areas, with many prominently pursuing custody services. Custody is often seen as the easiest and safest way for licensed firms to enter the digital assets space. This is because it involves no execution risk, as it merely requires transferring in or out across chains, and it carries minimal KYC and AML risks, as these firms usually provide custody solutions to existing clients who have already undergone these checks.

## Market Trends and Kaiko's Role

Entering the digital assets market through custody services is popular and beneficial. It allows institutions to develop domain expertise, especially in blockchain development, a skill that's still relatively rare compared to fields like TCP/IP network engineering or Java development. By establishing custody operations, banks not only gain expertise in a new asset class but also prepare themselves for the increasing integration of blockchain technology into traditional financial markets.

## Trends in Prime Services and Risk Management

Sean then explained that a number of firms are introducing prime-like services, including execution, exchange, and custody solutions, although these are not yet fully developed. The investment required for prime services is substantial, and not many firms are ready to commit to that level. "However, those who do, in my view, with 30 years in investment banking, are likely to lead in the ongoing digital transformation, which is set to revolutionize our industry," he reports.

In another trend, particularly among U.S. firms that have been cautioned against using public blockchain, there's a focus on derivatives-only strategies. This approach currently centres on

> ***« "While 1 in 10 asset managers are actively developing digital asset offerings, the rest acknowledge its inevitability but delay action. This hesitation poses a significant threat, as tokenization could eventually eliminate the need for traditional asset managers." »***

structured products for their existing clients seeking exposure to the asset class. As more licensed and traditional financial venues begin offering futures, these firms will likely use these platforms to manage risk. This risk management involves providing access to digital asset products through structured products to their high net worth clients, without taking on balance sheet risk or visibly engaging in this asset class, thereby offsetting or laying off that risk.

Currently, venues are being used by firms to lay off risk to trading firms that are willing to take it on, but lack access to the banks' high-fee-paying wealthy clients. While larger trading firms have a strong presence, they often don't have direct access to these clients. The futures markets, especially those focused on market-making, are increasingly becoming platforms for risk matching. As a point of reference, Kaiko provides extensive data on numerous derivatives exchanges and benchmarks for metrics like implied volatility.

"Surprisingly, despite recent public setbacks in the industry, a growing number of regional banks are now active in some form of digital assets," said Sean. "This is a notable change compared to a year ago." In asset management, several global players are actively applying for ETFs in the U.S., among other initiatives, he reports. Regional fund administrators and solution providers are also approaching Kaiko for data and control for administration purposes, indicating a rising investor demand for institutional-grade digital asset products.

Asset managers are also increasingly seeking Kaiko expertise for ETF ideas. "As a licensed index provider authorized by the French Monetary Authority under the EU BMR framework, we are seeing a particular interest from licensed asset managers in Hong Kong who want to list ETFs and similar products. Additionally, crypto asset managers are engaging with us for brand association with more legitimate market players. Our licensed status is attracting attention and gaining traction in the market."

Regarding exchanges, notable developments include CME, Eurex, Toronto Exchange, ICE, and recently, CBOE selecting Kaiko as their index provider for futures contracts, says Sean. Additionally, two Asian-based traditional financial exchanges are developing a futures product, and another global exchange is about to launch its own. Large firms like Deutsche Boerse are partnering with us for data distribution and related activities. This contrasts with a year ago when exchanges offering futures products were often unlicensed and remote. Now, the list of traditional financial exchanges providing these products is extensive, and those not offering futures are playing catch-up.

## Utilisation of Stablecoins

An interesting trend is the rising use of crypto by traditional financial firms for short-term or money market applications. "For instance, stablecoins like USDC and ONYX are being used for real-time intraday margin calls between banks. These banks use stablecoins for immediate settlement, fulfilling margin calls faster than fiat, which

typically arrives T+1 for dollars or later for other currencies." The significant aspect here is the use of stablecoins not as speculative assets but as tools for practical needs like lower funding rates and quicker settlement windows. For example, USDC and ONYX can settle transactions in about 15 minutes, a stark contrast to the longer process involving fiat currencies.

## Expanding Role of Custody in Digital Assets

Turning his attention to custody, Sean reports that Kaiko analysis shows that having a custody offering enables firms to expand into various other product areas beyond just custody. "We've noticed that ETH and BTC are now being used in GMRA-backed repo agreements, where crypto assets are entrusted to custodians for holding and potential settlement in case of margin call or counterparty failures. Banks can record these repos as cash payables and receivables, addressing some regulatory challenges like RWA, LCR, and LR in the asset class," he explained.

Kaiko provides a wide range of datasets, such as futures funding rates and staking and borrowing rates on DeFi, useful for building yield curves and understanding funding costs. We're also observing asset-backed financing, especially in the 30 to 180-day range, where assets like BTC and ETH are used as collateral instead of traditional equities. This represents a regular business use, not speculation.

In the commodity sector, Sean reports that Kaiko has seen the use of USDC for international payments, reducing the friction and costs associated with traditional currency conversions. This use of digital currency in commodities is aimed at trade financing, not speculation.

Lastly, in terms of fiat on-off ramping, traditional banks are stepping in where others have withdrawn, particularly in the US. These banks are offering fiat on-off ramping services to their existing clients, ensuring KYC and AML compliance. This indicates that clients of these banks are increasingly accessing the digital asset class, presenting an interesting dynamic in the market.

## Concluding Remarks

Brining his presentation to a close, Sean turned his attention to the topic of tokenization and security tokenization. "A year ago, a few firms were actively involved in crypto and blockchain innovations, with only a minority focusing on tokenization. Now, a year later, the majority are exploring tokenization," reports Sean. "At Kaiko, we're observing this trend closely, especially since we assist in interacting with smart contracts and distributing price information for Security Token Offerings (STOs)." A critical question arising, says Sean, is whether the growing momentum in tokenization will create a demand for a secondary market, considering that STOs currently lack secondary market liquidity and price discovery.

"To conclude, an existential threat for asset managers is their varying response to digital assets," noted Sean. "While 1 in 10 asset managers are actively developing digital asset offerings, the rest acknowledge its inevitability but delay action. This hesitation poses a significant threat, as tokenization could eventually eliminate the need for traditional asset managers." For instance, says Sean, with share tokens, it's feasible to create token indexes or ETFs, potentially bypassing the role of asset managers. "Therefore, I advise firms to dedicate at least one person to research and report on this evolving technology to the board, ensuring they stay informed and relevant in this rapidly changing landscape." ■