Unlikely hero

Lykke aiming to conquer digital asset markets with raft of licenses and innovative business model

DIGITAL ASSET EXCHANGE COMPANY LYKKE is seeking a raft of international financial licenses to fuel its ambitious expansion plans to conquer the world of cyber cash and investments. Lykke was founded three years ago by Richard Olsen, the man who previously started OANDA, which became one of the major FX platforms with the original premise to democratise the FX space.

Olsen worked on the principle that if you traded USD 1 million in currency or traded USD 100, both trades get the same price, which was a radical concept 15 years ago. With the emergence of blockchain, he saw that you could do the same thing across all asset classes, and make them accessible to everybody.

Effectively, given current infrastructure costs around financial markets there are many clients in the world that are just not economically viable to cover any longer, according to Seamus Donoghue, Lykke's agressive managing director.

SEAMUS DONOGHUE
Lykke

"You see banks constantly trimming their client lists because people don't do enough transactions or don't have enough AUM. The blockchain can replace much of the market's aging financial infrastructure firms and rewire their entire trade processing to enable transaction costs to drop to near zero with instantaneous peer to peer settlement on the block chain so the bottom billion can be easily and profitably serviced.

"I think this is potentially a game changer in terms of who you can access and the client reach - it becomes a key value proposition.

"Lykke was founded in Zug, Switzerland, and has grown to 130 people operating in 20 countries. We've got regulatory initiatives to become either securities dealers or exchanges in six jurisdictions. In the US, we are applying for a broker dealer licence and we will be launching an SEC-registered Cayman based hedge fund this month out of the US.

"In the EU, we are very near to receiving a broker dealer licence. In the UK we are applying for a multilateral trading facility licence, while in Switzerland our broker dealer application, under FINMA, will be submitted in November and that will operate an OTF (Organized Trading Facility). In Singapore, we are applying for a Recognized Market Operators licence for securities exchange which is effectively the same as existing stock markets but all assets will be in digital form."

Asset marketplace Lykke's objective is to create a global marketplace where all assets can be digitised and tokenised, free and accessible to anyone who wants to trade and invest.

As Donoghue said: "It will be free and accessible for everybody, for all assets be that are currently in the crypto space; the Bitcoins, the Ethereum and other blockchain currencies that can be listed, but more importantly, pending regulatory approvals, moving to listing equities, fixed income, real estate, funds and other traditional capital markets products in a tokenised form on an exchange where you have instantaneous settlement and no counterparty risk - clients own all their assets directly."

The elephant in the cyber room is obviously the regulator, in whatever jurisdiction Lykke may be inclined to trade, but this does not seem to strike any real degree of fear into the cryptocurrency commander.

"I think from the Prime Minister's office down in Singapore and this is being reflected with the MAS' ambition in the fintech sector, is for Singapore to be a smart nation, and digitising financial markets is a big part of that.

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"The MAS is very supportive of the sector, and given our broad ambitions in reinventing financial services we will be applying for a number of regulatory licences in Singapore to allow us to trade beyond the current limited offering of crypto currencies and tokenized foreign exchange.

"We also want to enable tokenisation of real world financial markets and create a bridge between old and new asset classes.

"At the same time, we are looking at licensing as an asset manager here so we can offer products in a regulated framework to accredited clients who want to invest in the crypto space.

"Very simply, if you look at things like Bitcoin and Ethereum, they are very volatile but they are also uncorrelated. Packaging these into a traditional diversified portfolio of traditional assets such as equities and bonds, can provide a significant performance impact on a real world portfolio."

Crowded space "I think the enterprise value proposition is restructuring a private bank or an asset manager, as blockchain can completely change your cost structure; it enables you to scale it in a very different way and enables you to offer products that existing banks just can't do; develop new products that evolve. This space is changing very rapidly."

Donoghue talks up his digital asset operation although he is the first to admit Lykke is entering a crowded space that could soon become a minefield for the unwary or disenfranchised.

"I think we have got a fairly provocative business model. At the exchange, all transactions are free so effectively you can change anything for anything at no cost with instant settlement - a frictionless offering for clients. I think the key proposition is liquidity and many exchanges have prices but no liquidity. I think this is true in the real world as well; people launch contracts but nobody comes, and a lot of traditional assets trap liquidity. Once you tokenise these things at the exchange, you can release trapped liquidity but the key for us is to provide liquidity.

"Our business model is not to make money on the ins and outs or "tolls", the way traditional banks operate. We want to eliminate all frictions and our business model is structured to provide that liquidity.

"We do that via an investment vehicle that will provide market making liquidity to any listed asset on the Lykke exchange and those are all algo-driven strategies. With this we will enable people to invest in those strategies and effectively we move from a Lykke "capital at risk" market making strategy to an asset manager that manages investible liquidity strategies, so it becomes a fee-based model for us," Donoghue said.

"We readily admit this is an unusual business model but even more provocatively this is not intended to be a 'walled garden' approach to liquidity where we are the only market maker and clients suffer from monopolistic pricing and wide spreads.

"We invite external market makers to also make prices as liquidity drives new issuance, and interesting new products and asset classes drives client wallet acquisition.

"Our ambition is to have 100,000 listings in five years time. We will be much happier with only 10% of a large, growing and thriving liquidity ecosystem than 100% of a closed illiquid system.

"Clients will go where the liquidity is and we are building the new regulated global market place for that liquidity." ■

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