HEDGEWEEK

DIGITAL ASSETS

REPORT 2023

Developments in the financial markets mirror the fast-paced change we experience in our everyday lives. The rise of digital assets is a prime example of this, where these instruments have emerged as a disruptive force, challenging the notions of value, ownership and the way transactions take place.

As cryptocurrencies, non-fungible tokens, blockchain and other digital assets capture investors' attention, and become more prevalent within portfolios, differences in the way these markets operate must be highlighted and addressed.

This report delves into the multi-faceted world of digital assets, uncovering the key factors driving several aspects underpinning investment in the asset class.

Operational efficiency is critical to all fund managers and in this space, it can be even more important. Having a robust digital infrastructure can support increasing demand and avoid transactional concerns.

Access to digital assets is also a commonly discussed topic and here we showcase the way managers can use swaps to gain exposure to the asset class without the need for direct ownership.

Concerns around custody and protection came to the fore following the FTX collapse, and addressing this topic and allaying any potential apprehension is crucial to having a well-rounded conversation about the future of digital assets.

In relation to these services, is the issue of prime brokerage for cryptocurrencies. Although the term remains broad and encompasses various functions, the industry has seen the rise of specialist providers in this area to best support managers who want to scale and expand their business.

This will provide a comprehensive overview of the digital asset market and the challenges and opportunities it presents.

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CRYPTO PRIME BROKERAGE COMES INTO ITS OWN

The digital assets market has experienced significant growth, supported by the rising participation of hedge fund managers and institutional investors looking to capitalise on the returns this new asset class has to offer. But as an emerging area of interest, the infrastructure to support investment and trade is still in development.

RISE IN SPECIALIST PROVIDERS

Hedge fund managers have lamented the lack of prime brokerage services specifically tailored to crypto assets, with limited access to crypto prime brokerage services being raised as one of the top concerns in the 2022 PwC Crypto Hedge Fund Report. Further, the report reveals an increasing number of cryptocurrency hedge funds are turning to independent custodians to ensure secure storage of assets, demonstrating the growing institutionalisation of the digital assets arena.

The term "crypto prime brokerage" currently encompasses a wide range of services, including custody, financing, market access, market research and technology. The aim of prime brokers is to provide a comprehensive solution for hedge fund managers and institutional investors and support the investor appetite for these assets.

This has cleared the way for the rise in specialist crypto prime broker services. And when selecting partners in this area, there are several considerations hedge fund managers should take into account.

SUPPORTING INSTITUTIONALISATION OF DIGITAL ASSETS

The development of crypto prime brokerage services has played a vital role in supporting the institutional adoption of digital assets. The building of a strong ecosystem and technical infrastructure to facilitate safe trading is critical in creating a robust, long-lasting asset class which can withstand various market pressures.

Though hedge fund participation in the crypto market has been rising, until 2021, only a small percentage of top hedge funds had the capacity to directly hold or trade crypto assets.

This is where crypto prime brokers, like Aplo, have come into their own; they have been stepping in to bridge the gap and provide synthetic exposure to digital assets.

"Through such services, hedge funds can benefit from cryptocurrency returns without having to deal with the investment operations behind the assets," says Oliver Yates, CEO, Aplo, "This access to synthetic exposure has further encouraged hedge fund allocations to these assets, facilitating market entry and mitigating risk."

STREAMLINING REPORTING PROCEDURES

When selecting a crypto prime broker, hedge fund managers must address specific factors to ensure they are being given a secure, effective service. These elements include the provider offering robust reporting mechanisms and risk management. They also must comply with licensing requirements, and ensure the safety of customer funds.

"Crypto prime brokers must provide solutions that streamline reporting procedures, such as self-service platforms that automatically collect transaction data for fund administrators and auditors," outlines Yates, "In addition, collaboration with top fund administrators guarantees thorough data coverage, spanning all customer actions including trades, borrowing, and staking."

Risk management and compliance are crucial considerations for hedge fund managers, especially when venturing into a new asset class, such as digital assets. Therefore, a reputable crypto prime broker should hold both brokerage and custody licenses, thus enforcing proper governance, security procedures, and robust cybersecurity systems for custodial services. Licensing in reputable jurisdictions adds an additional layer of trust.

To comply with Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements, the prime broker should also provide comprehensive compliance measures.

Another key consideration is the safety of client funds. Especially following the FTX collapse, this is of paramount importance. So when considering partnering with a crypto prime broker, hedge fund managers should assess the way the prime broker handles deposits, collateral, and mitigates market manipulation and fraud. Further, understanding funding requirements and risk mitigation strategies is essential to protect investors' interests and ensure the overall security of the investment process.

COMPLIANCE CONSIDERATIONS

Regulation is a frequent bone of contention in the digital assets space, as legislation is still in the development phase across several jurisdictions worldwide. However, many serious players in the industry are welcoming tighter controls as it gives those able to handle the new environment more credibility.

This is also true in relation to crypto prime brokers. There are several compliance factors hedge fund managers must consider when selecting a third-party partner in this regard. Yates details: "The prime broker should be registered with and supervised by a competent financial authority in a strong jurisdiction. Reputation with regulators is crucial, and any past attempts to avoid jurisdictions or failed license applications should be carefully evaluated. Also, due to the current regulatory uncertainty in the United States, hedge fund managers should ensure that the crypto prime broker they choose has a regulatory footprint beyond the US. Rather, they can consider jurisdictions with a mature regulatory framework and that fall within the scope of the Markets in Cryptoassets (MiCA) Regulation[1]."

These considerations can have an impact on a hedge fund manager's investment strategies across digital assets. For instance, the jurisdiction of the crypto prime broker may impact the manager's access to deep liquidity pools, as crypto-exchanges remain the primary source of liquidity in the market. "Therefore, opting for a jurisdiction where crypto-assets are treated as a segregated asset class with a dedicated regulatory framework reduces uncertainty around token classifications and opens up additional investment opportunities in areas such as staking and decentralised finance (DeFi)," Yates explains.

LEVERAGING ADVANTAGES FOR OPTIMAL INVESTMENT STRATEGIES

Prime brokers specifically tailored to offer services to the crypto market can offer managers several advantages compared to traditional brokerage services. These are primarily in terms of liquidity and trading capabilities. Yates notes: "Traditional brokerage services often suffer from a lack of liquidity and product diversity. This can prevent institutional investors from exploiting their experience to its full capacity within the crypto markets. In contrast, crypto prime brokers like Aplo provide diversified liquidity sources, including exchanges, liquidity providers, systematic internalisers, and, in some cases, decentralised exchanges (DEXes)."

As outlined earlier, many hedge fund managers as yet do not have direct market access to crypto assets. This can be provided through a prime broker, where hedge fund managers can route orders directly to select exchanges, ensuring optimal fees and benefiting from the broker's back-office capabilities.

Another service a crypto prime broker can offer is Smart Order Routing (SOR). This allows for execution across multiple exchanges, centralised or decentralised, to secure the best aggregate price. "Additionally, high-touch trading services offered by crypto prime brokers leverage their trading experience and balance sheets to perform complex trades, such as swaps, benchmarking, and block trades," Yates points out.

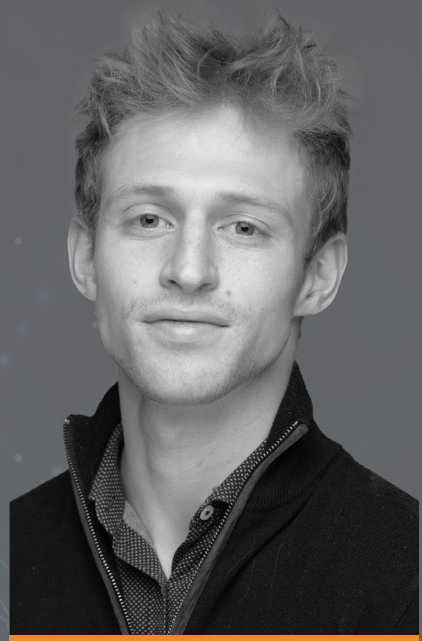
Crypto prime brokers also assist hedge fund managers in selecting the best execution policy based on their financial objectives and prevailing market conditions. By leveraging these advantages, managers can optimise their investment strategies, capitalise on market opportunities, and enhance their overall portfolio performance.

EMERGING TRENDS AND INNOVATIONS

Given the fast pace of development across the digital assets landscape, crypto prime brokerage also must transform and keep stride with the changing industry. Looking ahead, several new trends and innovations are emerging to shape the future of crypto prime brokerage.

Cross-margining, for example, allows traders to utilise their total account balance to cover potential losses across multiple positions, enhancing flexibility and efficiency in managing margin requirements. However, it also carries higher risks, meaning institutional traders must have robust risk management strategies in place in order to do this successfully.

Another significant development is the emergence of crypto clearing houses. Such entities in the crypto space would offer substantial benefits to institutional investors. They provide a centralised hub for trade execution and clearing, reducing and even eliminating default risks and therefore enabling margin, collateral, and asset settlement across multiple venues. Yates notes: "By reducing counterparty risk and margin requirements, clearing houses streamline post-trade processing for digital assets, enhancing efficiency and security. Hedge fund managers can seize these new opportunities by staying informed about emerging trends, engaging with reputable crypto prime brokers, and adapting their investment strategies to the evolving landscape of the digital asset market. Moving forward I can even see a day when crypto will operate on a T+2 settlement basis in line with mature markets like equities. While not a necessity given crypto's inherent ability for instant transfers, such a system could enhance capital efficiency, aligning it more closely with established financial markets. "



OLIVER YATES
CEO, Aplo

Oliver is Aplo's CEO and is responsible for all aspects of the business' growth and strategy.

A relative veteran in the crypto space, he built the first blockchain-enabled insurance contract for a major French insurer. Later led a research project on Ethereum security exploits at his university laboratory and contributed to the design of risk & trading signals for cryptocurrency funds at Merkle Data.

He holds a MSc in Applied Mathematics from Supaero and a joint MSc in Technology Entrepreneurship from Ecole Polytechnique and HEC Paris.

[1]https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/739221/EPRS_BRI(2022)739221_EN.pdf

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BUY VERSUS BUILD – CREATING OPERATIONAL EFFICIENCY IN DIGITAL ASSETS INVESTMENT

In the context of growing demand for digital assets, hedge funds operating in the space need to make a choice critical to the growth of their business – do they build their digital infrastructure or buy in the capabilities from a third party? Their choice here can significantly impact the fund's operational efficiency and selecting which best suits their specific fund and business can support their development in a fragmented and shifting market.

by Angele Paris

TIME-TO-MARKET AND COST

One of the first considerations hedge fund managers need to account for is time-to-market. The speed with which they want to launch their investment strategy will impact whether they build or buy their digital assets infrastructure. In truth, hedge funds investing in digital assets often face significant time pressure to come to market quickly. However, developing one's infrastructure is far from instantaneous.

James Stickland, CEO at Elwood, comments: "In early 2022, we had many conversations with funds that were effectively trying to 'catch the bus', as they aimed to get their digital asset infrastructure up as quickly as possible to generate alpha. While the events 2022 turned these conversations to risk mitigation tools and our reconciliation capabilities, time-to-market remains an essential first consideration, as building infrastructure takes time."

A thorough cost study that considers ongoing maintenance costs is also crucial. Due to the retail nature of how some exchanges began, there needs to be more standardisation, making the upkeep of several connectors to venues time-consuming. In view of this, maintenance to ensure consistent uptime becomes a necessary expense for managers, particularly during volatile times.

SCALABILITY

Another factor hedge funds mulling the choice between building their infrastructure or buying this expertise should consider is scalability. Funds must evaluate their expectation for development as the market for digital assets grows and decide whether their internal infrastructure can support this growth. "As trading volumes rise, the capacity to scale is crucial to preventing bottlenecks and operating inefficiencies," says Stickland.

DISPARITIES AND SEAMLESSNESS

The fragmentation still present in the digital asset space can present significant challenges to hedge fund managers looking to launch strategies investing in this asset class. The digital assets ecosystem is developing quickly. However, it is still very new, in contrast to traditional finance, which benefits from decades of research and standardisation. This lack of uniformity leads to fragmentation and inefficiencies affecting operational efficiency.

Getting the digital infrastructure right is essential to addressing these issues. To effectively invest in digital assets, hedge fund managers need several links to exchanges, liquidity providers, custodians, and data providers. According to Elwood, institutional investment activities require about 15 different connections: "Having an institutional-grade infrastructure offers managers the uniformity needed to manage this fragmentation smoothly, enabling funds to function effectively and prevent duplication."

OPTIMAL PROCESSES FOR OPERATIONAL EFFICIENCY AND COMPLIANCE

Even in this nascent asset class, hedge fund managers should follow best practices to maintain operational efficiency and provide a secure investment to their clients. These processes mirror those found in traditional finance.

Due diligence and good governance are essential, and managers must invest in reliable frameworks and procedures to ensure these are delivered to the highest standard, despite any potential cost burden. "Fire insurance looks expensive until your house burns down," warns Stickland.
They must also keep abreast of global regulatory developments and make sure their infrastructure is built to allow them to scale while also remaining compliant with current and future regulations. He further advises: "Regulators globally are looking closely at the space, and while some are more friendly than others, almost all are looking to create guide rails shortly; funds don't want to be caught out by any changes."

Fund managers would also do well to invest in knowledgeable experts in the field as, given the emerging status of the asset class, finding specialists in digital assets can sometimes be a challenge. To successfully negotiate the industry's complexities, hedge funds should invest in training their staff or consider forming partnerships with established players.

MARKET LEARNINGS AND FUTURE PROSPECTS

The collapse of FTX and the crypto winter that followed in 2022 profoundly altered the digital assets market. These events expedited the ecosystem's development and emphasised the need for strong internal procedures and infrastructure.

The whole of 2022 showed the impact simple market volatility can have, and this put pressure on the ecosystem, underlining the importance of funds understanding their positions and exposures. "These concerns are why Elwood invested much time in bringing 'what-if scenarios' to our platform," Stickland says, "Clients can shock spot prices and volatility to observe their portfolio's impacts and better understand their exposure. The more comfort we can bring to clients through infrastructure with tools and features they would expect in other asset classes, the faster we will see institutional adoption."

As a result of the diligent work by industry participants, themes which are part of the fabric of traditional finance, such as due diligence, good governance, and institutional architecture, are now more frequently discussed in the context of digital assets. The industry is now clearly focused on risk reduction, compliance, and the management of counterparty risk, in addition to direct market access and venue connectivity.

"Crypto isn't so 'new and cool' to be able to avoid core requirements found in all other financial systems and processes," notes James, "The most frequent topics Elwood engages in of late concern our advanced suite of risk mitigation features and monitoring tools. But it's encouraging to see Elwood and other industry participants providing solutions to these challenges. We have seen several digital asset custodians providing solutions to minimise counterparty risk in the wake of FTX."

Looking ahead, Stickland expects to see more interest in decentralised financing (DeFi). But before institutional players engage in DeFi, issues with speed, functionality, and scalability must be resolved. Until these are addressed, James believes institutions will continue to observe rather than engage in the immediate future.

"Ultimately, the primary lesson I hope has been learned is that we should demand more transparency from industry participants, as made clear by the FTX collapse. However, we should plan and manage our risk accordingly to minimise the impact of bad actors as we would in any other market; digital assets are not different in this respect," says Stickland.

JAMES STICKLAND
CEO, Elwood Technologies

NAVIGATING THE CUSTODIAL LANDSCAPE IN AN EVOLVING DIGITAL ASSETS MARKET

The rapid growth of digital assets has created unique challenges and opportunities as the industry balances the needs of an innovative, ambitious sector with the checks and balances needed to ensure the security and safekeeping of assets.

Market structures are developing to mirror traditional financial standards and against this backdrop, the custody of digital assets has come under sharper scrutiny. There are two key approaches to custody that investors and asset managers should consider, self-custody or managed custody. Each comes with its own set of benefits and drawbacks which investors must weigh when making their decision.

In this context, asset segregation, transparency, compliance in key regulatory jurisdictions and secure collateral management solutions are all elements which must be taken into consideration when opting in for the custody of digital assets.

NOT YOUR FATHER'S ASSET CLASS

As the digital asset market matures, custody services are evolving to meet the changing needs and expectations of a growing cohort of institutional clients.

Given the nascent nature of the asset class and the fact these assets differ significantly from traditional markets, digital assets can present a more complex set of risks, that can have irreparable and costly consequences.

Approaches to custody and risk management thus vary and some counterparties, mainly native crypto outfits, may feel like they have the procedures in place to mitigate these risks and control their own keys. However, this is debatable.

For institutional financial and buy-side players venturing into the digital assets space, managed custody clearly outweighs the self-custody route due to various factors.

If a party chooses to self-custody, transmission and storage are their sole responsibilities. These processes can be challenging on various levels. For example, the inability to verify the recipient's identity and location when transferring assets on a public blockchain means any investor or manager choosing to self-custody needs

NICOLAS BERTRAND
CEO, Komainu

Nicolas is the CEO of Komainu since September 2022. As a senior executive specialised in market infrastructure and digital assets, he has been involved in businesses linked to listed derivatives, institutional brokerage, tokenisation and blockchain.

Nicolas held leadership positions in the exchange industry for London Stock Exchange Group and Borsa Italiana, the Italian Stock Exchange. Prior to joining the exchange, Nicolas worked for Citibank and developed his expertise trading on a range of products and asset classes.

Nicolas graduated in econometrics and holds a postgraduate degree in finance (DESS 203) from the Université Paris IX Dauphine.

to be meticulous in the way they handle transactions.

"If there is an error in transferring capital from one party to another within the traditional asset ecosystem, those assets can be tracked,"," says Nicolas Bertrand, Komainu CEO, "but on a public blockchain, one has an address but no way of verifying who or where one is sending an asset to."

Managed custody mitigates the multitude of risks associated with this new asset class and provides a highly specialized service with a huge barrier to entry with regards to operational costs, infrastructure requirements, cybersecurity measures and regulatory and compliance expertise.

Bertrand warns: "Unless sophisticated and with a native crypto bent, our strong view and advice is to take the managed custody route."

Following the FTX collapse, custody has come under the lens and Bertrand further outlines how the commingling of assets has been a significant source of preventable debacles and capital impairments in the crypto industry.

"Proper segregation of client assets from each other and the custodian's balance sheet is essential to mitigate risks and maintain trust. This involves implementing distinct layers that ensure the separation of assets. All parties entering a custodial arrangement must ensure these segregation requirements are met to prevent potential errors."

In the digital asset industry, transparency and trust are critical, particularly in a post-FTX world.

"Institutions must ensure they are not misled by custodians marketing as regulated entities. It is vital to understand the nuances of licenses and regulatory capital requirements, as these reinforce adherence to proof of reserves, liquidity requirements, and other essential metrics," explains Bertrand., "By publishing audited financial statements, providing proof of reserves, and adhering to minimum capital and liquidity requirements, institutions can bolster investor sentiment and foster trust."

Regulation of the digital assets industry remains in flux as the industry has witnessed the evolution of various regulatory approaches, from outright bans to registrations and authorisations. According to Bertrand, regulatory frameworks play a pivotal role in enhancing security and stability within the digital asset market.

"Principles-based frameworks, focusing on technology neutrality, have a better chance of standing the test of time without stifling innovation. Collaborative efforts between custodians and regulators are crucial to ensure institutions can operate in this space while upholding regulatory compliance."

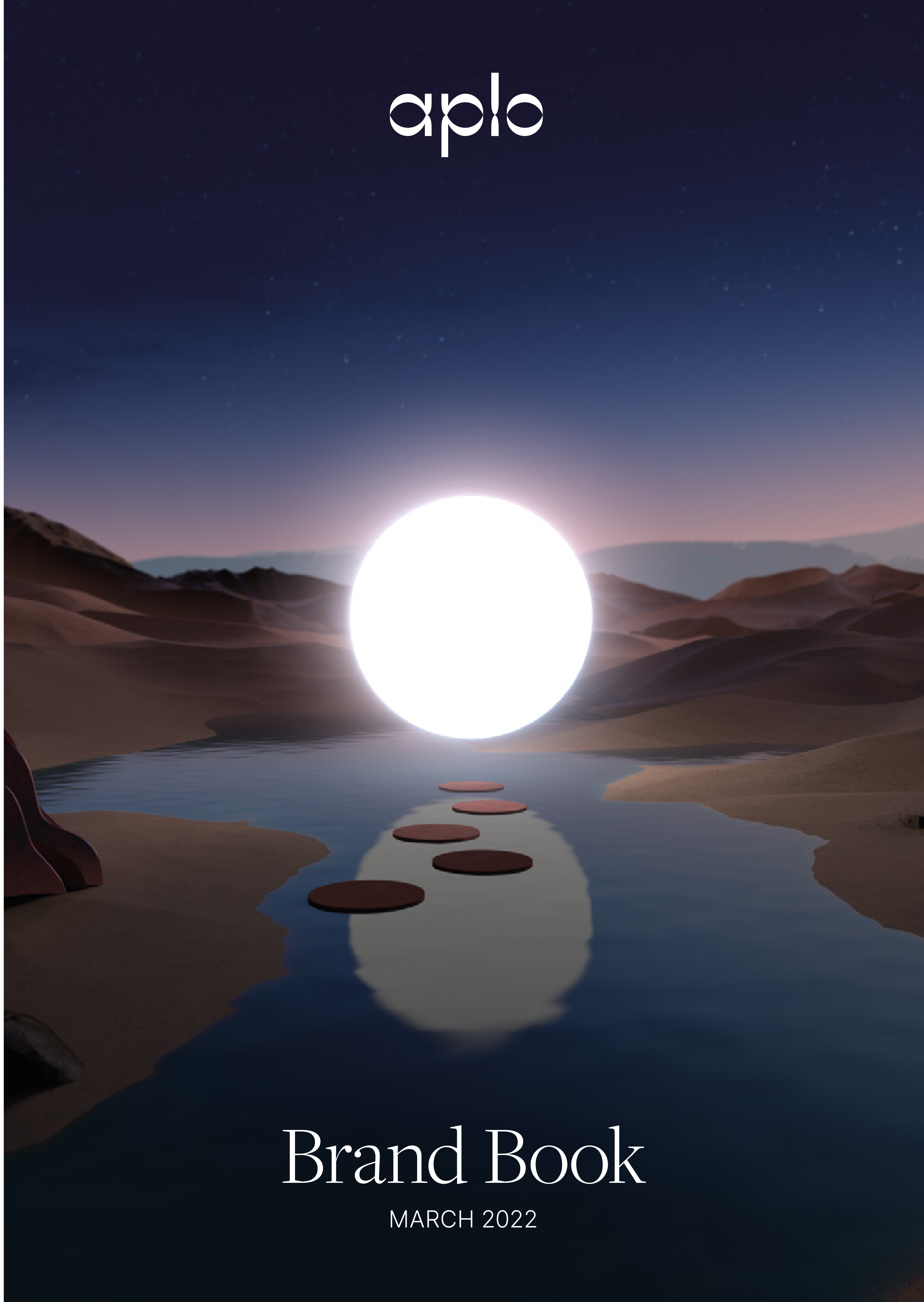
A MULTI-FACETED APPROACH

When it comes to the evolution of services offered to managers and investors, robust collateral management offerings and custodial staking services have emerged as game-changing add-ons. These services allow institutional clients to put their assets to work and maximise trading opportunities while their assets remain secure which will ultimately drive the growth and adoption of digital assets by spurring liquidity.

"Through tri-party agreements and on-chain custody verification, clients can hold their digital assets in collateralisation scenarios within secure, regulated custody. This eliminates the need for clients to hold collateral with trading partners, enabling 24/7 trading while maintaining the security of assets," added Bertrand.

As the digital assets landscape continues to evolve at breakneck speed, managers and investors must carefully consider their custody arrangements to build a sustainable exposure to this asset class. While self-custody might be appropriate for some, the majority of institutional-grade players investing in this asset class long-term are better placed to adopt a managed custody solution.

The rise of specialist custodians has served the market well, with practitioners demonstrating best practices and helping to foster needed trust and confidence in the asset class.



HARNESSING CRYPTO'S POTENTIAL THROUGH SWAPS

GREG COLLETT
General Counsel, SwapGlobal

Greg Collett has held both legal and business positions, always with a commodities or derivatives, and more recently crypto, throughline.

He launched Deutsche Bank's commodity ETF business in the US, which included listing the first CFTC-registered derivatives-based ETF on a US exchange (Symbol: DBC).

More recently, he was President of BlockFi I NB, a JV with Neuberger Berman to launch crypto asset management products. He started his career as a derivatives lawyer for the CFTC, Sidley, and Deutsche Bank.

Hedge funds that want to be active in the crypto space are immediately faced with the difficulty of how to execute on their trading strategies. Other asset classes, like equities or commodities, don't present this problem in such a heightened way because those markets have well-defined, regulatory-compliant ways to act on trade ideas.

This article argues that over-the-counter derivatives (for brevity, swaps) can help mitigate regulatory and operational difficulties that hedge funds face when executing on crypto trading strategies. The article focuses on US hedge funds and US regulations because the US generally presents the greatest difficulties for hedge funds looking to execute on crypto trading strategies.

WHY USE SWAPS TO ACCESS CRYPTO?

Swaps provide more regulatory clarity and comfort for hedge funds. They also solve specific regulatory issues. They: –

- Help hedge funds comply with the SEC Qualified Custody Rule;
- Allow hedge funds to access the economics of hard-to-access instruments
- Serve needs when hedge funds face exchange position and accountability limits

Swaps help hedge funds comply with the SEC Qualified Custody Rule

The SEC Qualified Custody Rule says, in essence, that (i) hedge funds managed by a Registered Investment Adviser (RIA) have to hold assets with a Qualified Custodian, which is defined as a bank, broker-dealer, futures commission merchant, or foreign financial institution, and (ii) the Qualified Custodian has to hold those assets in a separate account on behalf of the fund. Moreover, the SEC recently proposed a new Custody Rule (now called the Segregation Rule) that expands the reach of the rule and imposes new requirements on how RIA-managed hedge funds custody assets.

If a hedge fund managed by an RIA wants to invest in crypto directly, it has to ensure that the crypto is being held by a Qualified Custodian that complies with the rule, and there is considerable doubt about whether any of the leading crypto custodians actually meets the requirements of the rule notwithstanding that they say they do. SEC Chair Gensler has stated, "Crypto companies may claim they can take proper custody of your assets . . . [but] even if a crypto company claims that they custody your assets, it's not the same as qualified custody." Commissioner Hester Peirce also asked SEC staff about the proposed Segregation Rule, "If the rules were to go into effect as written today . . . would there be any Qualified Custodians in the crypto space?"

Swaps give hedge funds more certainty that they are complying with the SEC Qualified Custody Rule.

Swaps help hedge funds get the economics of hard-to-access instruments

Although limited exchange-traded crypto derivatives markets exist in the US (the CME, for example, offers Bitcoin futures), markets for some products that hedge funds want, like options on Bitcoin, simply do not exist in the US. Markets for these products have developed outside the US - like Deribit - but those markets are not US-registered trading venues and are not allowed to accept US customers. Swaps allow US hedge funds to enter into trades, like options on Bitcoin, that essentially mirror the economics of the instruments found on non-US trading venues.

Swaps serve needs when hedge funds face exchange position and accountability limits

Swaps also can help hedge funds execute on their crypto trading strategies when they face position and accountability limits in exchange-traded futures. This is not a trivial or theoretical problem because those limits generally apply at the commodity pool operator (CPO) level to all funds managed by that commodity pool operator, so a CPO with several funds that invest in crypto futures can quickly hit limits. Position limits are hard limits that a CPO faces when investing in futures, and accountability limits subject a CPO to heightened scrutiny by an exchange that can lead to a CPO having to cut back on its positions. Hedge funds can get greater certainty that they can execute on their crypto trading strategies and not be forced to cut back on positions by entering into swaps.

Swaps also solve operational problems for hedge funds. They: –

- Allow hedge funds to make trades that are difficult or impossible to make
- Provide leverage to hedge funds

Swaps allow hedge funds to make trades that are difficult or impossible to make

Some trades that US hedge funds may want to enter into, like shorting anything other than Bitcoin or ETH, are difficult or impossible to execute. For example, last year, many funds in the crypto space wanted to short Tether ("USDT"). In theory, they could have borrowed USDT and sold it short, but it is both difficult to find a party willing to lend USDT and difficult operationally for many funds to manage physically borrowing USDT. The problem becomes even more complicated for a hedge fund that wants to short a basket of alternative crypto assets. Entering into a swap outsources all of those problems to the swap dealer and makes this a simple trade for a hedge fund.

Swaps can provide leverage to hedge funds

Swaps can be a more capital-efficient way of accessing crypto because they can provide leverage to hedge funds. Direct investment in crypto is obviously capital-intensive, but exchange-traded crypto futures also are more capital-intensive than their non-crypto futures cousins. CME Bitcoin Futures, for example, require 38% of the notional amount to be posted as initial margin. Hedge funds may be able to enter into Bitcoin swaps with less initial collateral.

CONSIDERATIONS WHEN ENTERING INTO CRYPTO SWAPS

Crypto swaps present similar issues to swaps on other underlying assets. Hedge funds should make sure that a swap dealer is either registered or exempt under SEC and CFTC rules because they fall under the de minimis amounts - $400 million for SEC registration and $8 billion in aggregate gross notional amount in the past 12 months for CFTC registration. They should also make sure that the swap dealer will properly report trades as per CFTC rules, which some non-US swap dealers do not do. Finally, since swaps involve future payments, funds should consider the creditworthiness of their counterparties. Credit concerns, however, can be mitigated by using triparty or control accounts to hold collateral.

SOLVING REGULATORY AND OPERATIONAL ISSUES

Crypto swaps solve regulatory and operational problems for hedge funds. From giving funds regulatory certainty with respect to SEC and CFTC rules, to allowing funds to execute on trade ideas like shorting altcoins that are difficult to impossible to execute, funds that are active in the crypto space should consider executing on those trade ideas by entering into swaps.

SWAPGLOBAL

aplo

Aplo is a full-scale, on-shore, and EU-licensed Prime Broker for digital assets. We give institutional investors the tools to execute investment strategies simply and safely. Deposit collateral, trade, borrow, hedge, stake – all through a single platform. We'll handle the integration, risk management, execution and reporting, so you get the most productive trading experience possible.

For more information, visit www.aplo.io

ELWOOD

Elwood Technologies is an established global fintech building institutional digital assets trading infrastructure. Its end-to-end OEMS and PMS digital asset platform connects to international crypto exchanges and delivers risk management and reconciliation tools with leading market data. Built by industry experts with decades of combined experience in alternative investment management, Elwood Technologies provides market infrastructure at scale, enabling financial institutions to access the digital assets market quickly and efficiently.

For more information, visit www.elwood.io

KOMAINU

Komainu is a regulated digital asset custodian built by institutions for institutions and created as a joint venture between Nomura, digital asset manager CoinShares, and digital asset security company Ledger. Offering multi-asset support with regulatory compliance, Komainu is merging traditional financial services with leading security standards for the next generation of institutional custody. Headquartered in Jersey and with offices in London, Dublin, Dubai, and Singapore, Komainu (Jersey) Limited is regulated by the Jersey Financial Services Commission (JFSC) and Komainu MEA FZE is regulated in Dubai by the Virtual Assets Regulatory Authority (VARA).

For more information, visit www.komainu.com

SwapGlobal

SwapGlobal is an electronic crypto swap dealer backed by and for hedge funds and family offices. SwapGlobal provides sophisticated investors access to digital assets in a regulatorily compliant and operationally-convenient way.

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