

The impact of digital and crypto assets in the FX landscape and product suite



ECB FXCG

December 2022



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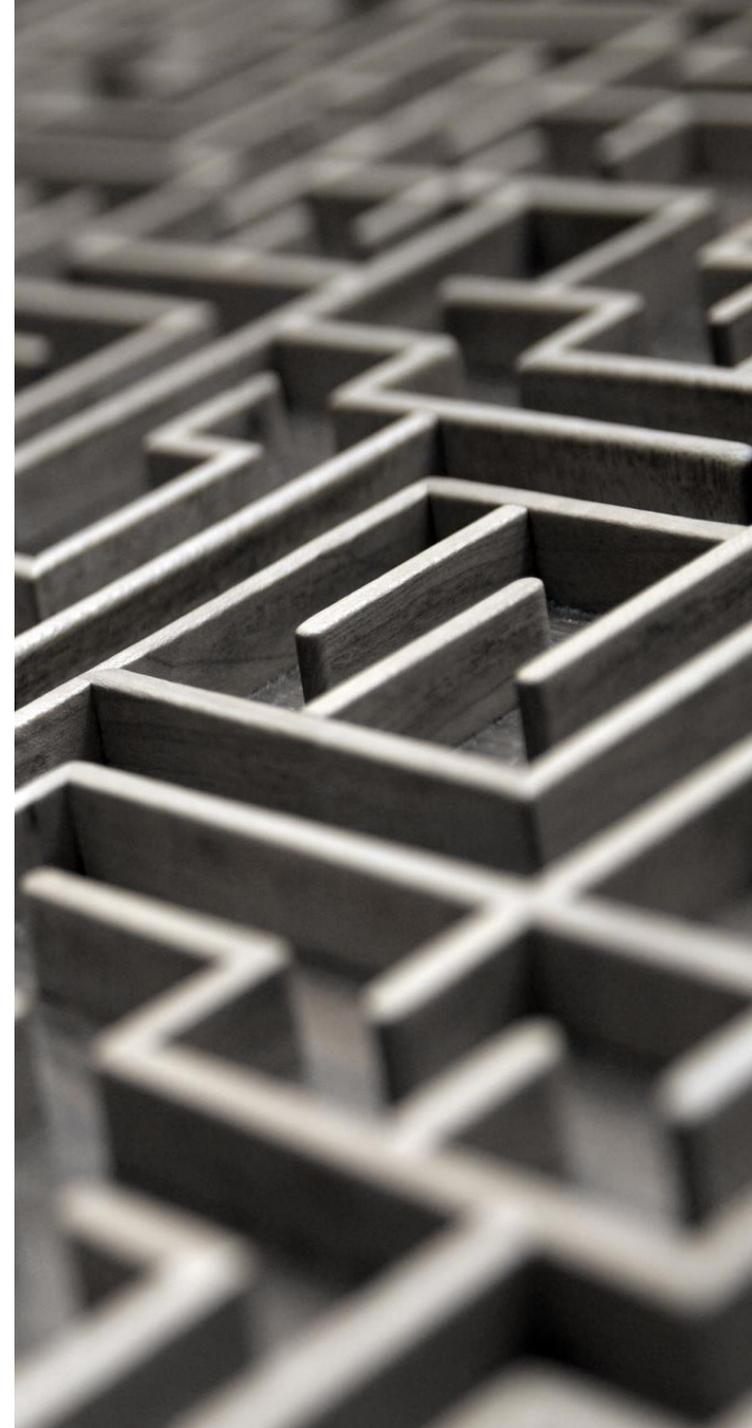
Similarities of Crypto with FX

- Similarity of execution style (ex: BTC/USD)
- Global in nature
- Similar products (Spot / Derivatives)
- Demand from existing FX clients to trade Crypto in a safe and compliant manner
- A lot of people move from FX dealing desks to Crypto trading firms
- Similar process and controls (code of conduct for Spot & regulation for derivatives)
- Similar process activities with some minor changes



Challenges for institutionalisation of Crypto trading

- Supervision clarity is at very early stage and different per EU countries
- Current lack of Global regulatory harmonisation
- Capital and custodial treatment
- Unlevel playing field between regulated institutions & crypto native firms
- Institutional Custody still at early adoption stage
- Speed of regulation compare to technology changes



Regulatory focus is accelerating

■ EU Regulatory update

- the Markets in Crypto Assets Regulation ('**MICA**'): due to be in place in 2024-2025 (depending on adoption and publication of final text).
- Enhancements in AML package will bring crypto asset service providers in scope of the FATF travel rule in 2023/2024.
- Differences between EU countries (e.g. France and Germany)
- **Code of conducts:** A few already in place but lack of global adoption

■ Interest from other regions

- **Asia:** Monetary Authority of Singapore & New York Fed Collaborate to Explore Potential Enhancements to Cross-Border Payments Using Wholesale CBDCs – [11 Nov 2022](#)
- **UK:** Stable coins to be recognized as a valid form of payment as part of wider plans to make Britain a global hub for crypto asset technology and investment. – [4 April 2022](#)
- **US:** SEC Chair Gary Gensler doubles down on the Need to Regulate Cryptocurrencies (as securities) – [Sep 2022](#)
- **Middle East:** Virtual asset law to establish the position of Dubai and the UAE as a key global player in virtual assets. The virtual assets law also establishes the Dubai Virtual Assets Regulatory Authority (VARA)



European heatmap on custody

- EU Directive
- Modified EU Directive
- Extended scope of EU directive
- Under review
- Beyond EU Directive

Global Regulatory focus is starting

- **Global focus & consultations**
 - **IMF:** Calling for more regulation on Crypto asset
 - **IOSCO:** issued regulatory guidance on crypto exchanges
 - **FSB:** Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets: [Consultative report](#)
 - ✓ *Effective regulatory and supervisory frameworks should be based on the principle of “same activity, same risk, same regulation”.*
 - **FSB:** International Regulation of Crypto-asset Activities: A proposed framework – [questions for consultation](#)
 - ✓ *An effective regulatory framework must ensure that crypto-asset activities are subject to comprehensive regulation, commensurate to the risks they pose, while harnessing potential benefits of the technology behind them.*



Other trading usage of digital asset technology

Reduce Settlement Risk in FX

- CLS currently solves the settlement risk problem whilst allowing multi-lateral netting.
- Digital Assets and Blockchain technology is an alternative solution to free up access between participants in need and providing liquidity.

Applications to other asset classes

- Repo market
 - ✓ *Improving locates & Ability to charge interest at more granular levels)*
- Bonds (Illiquid, EM, ESG)
 - ✓ *Technology could be used to increase accessible liquidity*



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Flow Traders – Digital Assets

- Global leading market maker in equities, fixed income and digital assets
- Trading digital assets since 2017 and obtain crypto registration from the Dutch Central Bank (DNB) in 2021
- Established a venture capital unit, Flow Traders Capital in 2022 to invest in digital assets infrastructure and broader ecosystem



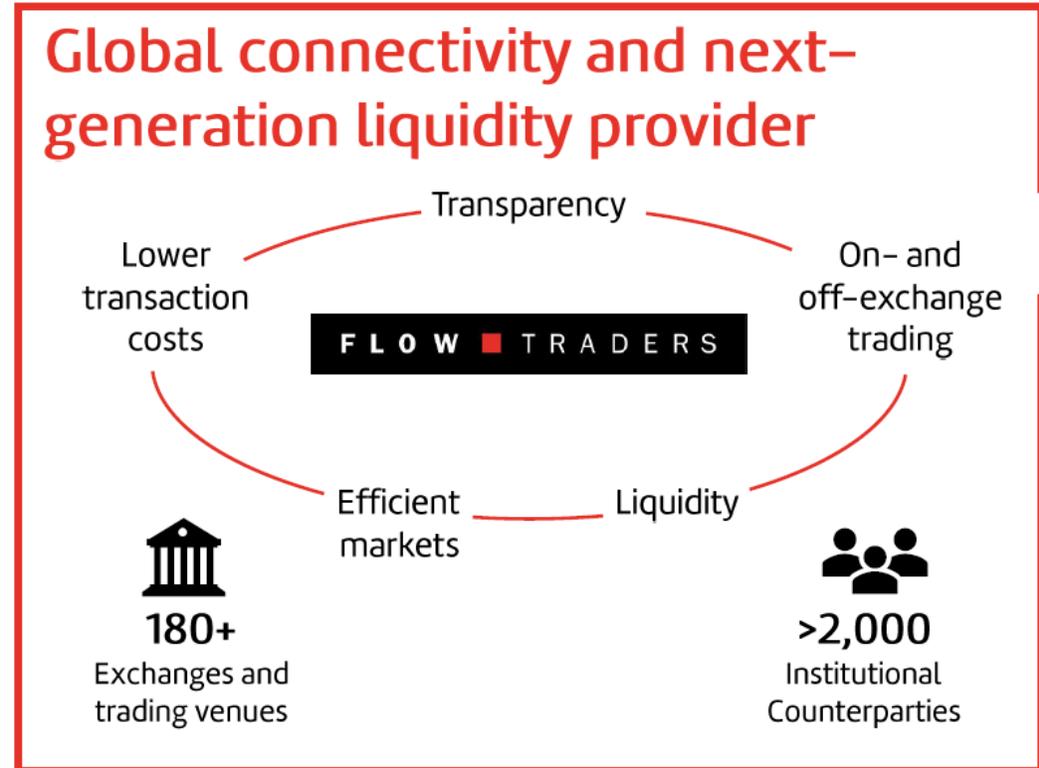
9
Offices
Globally



600+
Employees



27%
Global
Crypto ETP
Market Share



Cross Border Payments & Financial Inclusion

Cross Border Payments

Moving money from one country to another is slow, expensive and inconvenient, settlement can take from anywhere between a day to a week due:

- Human overhead
- Inconsistent messaging standards
- Intermediaries between the sender and receiver

Benefits of Digital assets - can reduce settlement speed to minutes, if not seconds by:

- Reduces the need for intermediaries
- Messaging standardization

Financial Inclusion

Current dynamics

- Trade Finance Gap is increasing, particularly in the micro, small and medium size enterprises
- De-risking is happening around the world, and its effects are unevenly distributed, with some regions affected far more than others

Benefits of Digital assets

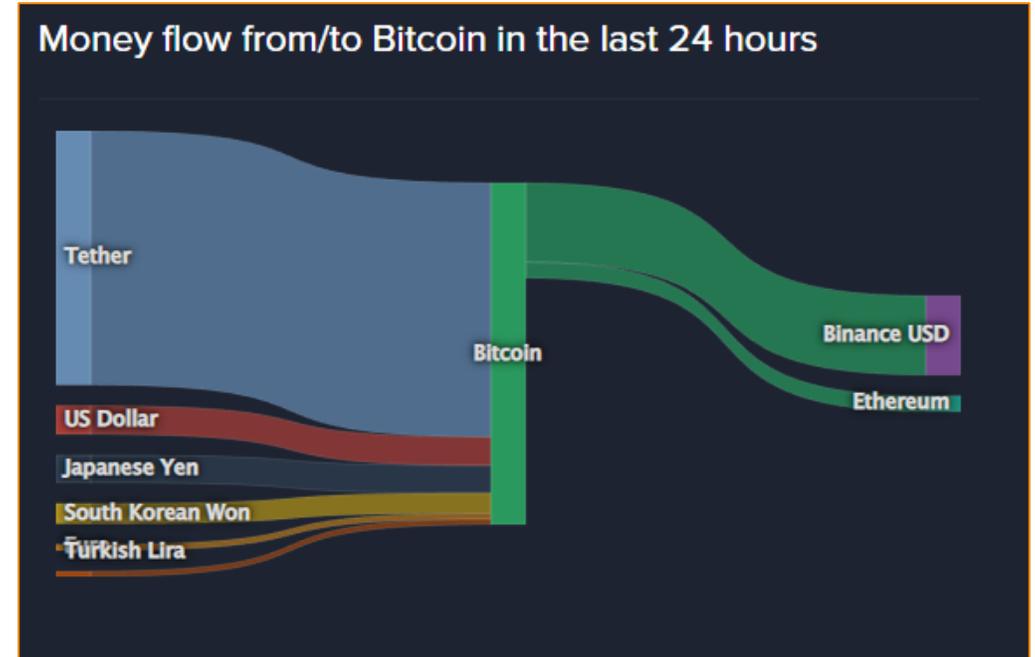
- In places/ enterprises where high-quality financial records are not available, digital currencies and ledgers could be used to share payment and financial history to underwrite loans
- Digital assets could provide alternative payment methods that allow consumers and merchants from those countries to be reconnected with international buyers and sellers

Stable coins' impact on the FX landscape

Stable coins

- Stable coins are crypto currencies whose value is pegged or tied to that of another instrument. There are 2 main kinds of stable coins:
- Collateralized (FIAT, Crypto, etc.)
- Algorithmic Stable coins
- As of Dec 1st, 2022, USDT is the third largest Crypto currency by market capitalization, and the main vehicle by which money flows into Digital Assets

>95% traded in DA is dollar-denominated



Source: <https://coinlib.io/coin/BTC/Bitcoin> (1st Dec 2022)

Trading Mechanisms

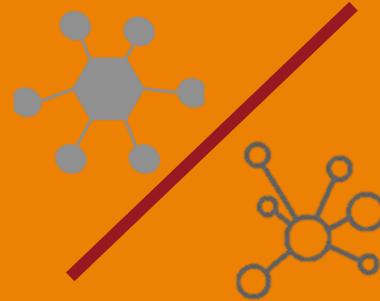
**Centralized
Exchanges**



**Decentralized
Exchanges**



**Hybrid
Exchanges**



**Over the
counter**



Innovative Trading Mechanisms

- Majority of trading still occurs on centralized exchanges, however the space continues to innovate at a considerable pace
- The FTX bankruptcy sparked interest in decentralized and hybrid models, which involve decentralized custody solutions, completely reducing counterparty risk to an exchange
- The emergence of AMM models allowed deployment of capital in a liquidity pool without the need of a market maker



Thank you.

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