

Published in May 2015, the original article reviews three different trading models: Digital Assets Holding's loan service, LedgerX's bitcoin options platform and Tera Exchange's dollar-settled swap. This summary highlights the LedgerX business, extracting portions from the original article.





Bitcoin Comes of Age

06 May 2015, [Timothy Burglarize Murray](#)

A small group of industry veterans are working on platforms to bring trading and hedging of digital currencies to maturity

Need for Regulated Platforms

If an institution wants to exchange BTC for fiat currency, whether U.S. dollars, Euro or Yuan, no safe settlement platform exists to protect both counterparties from failure. This has left many in the space clamoring for new, better-regulated venues. U.S. Institutions lament the fact that many venues are located in non-U.S. jurisdictions, under limited regulatory oversight, and with limited financial backing.

Building a Bitcoin Options Market

Paul L. Chou and his team at LedgerX – which is in the CFTC regulatory approval process – have been working since 2013 to build an options platform suitable for the diverse array of institutional participants in the space – from miners, merchant services and remittance processors, to consumer on-ramps like Circle Internet Financial and investment managers.

“ A centrally cleared, physically-delivered product, where we guarantee every trade, will catalyze participants”

— Paul L. Chou, CEO LedgerX

Hedgers and Speculators

Businesses that accept BTC on behalf of corporate clients have a large amount of bitcoin on their balance sheet. Paul L. Chou of LedgerX explains, “They want to guarantee a certain price range through a cost collar contract. And

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<http://www.waterstechnology.com/waters/feature/2407252/bitcoin-comes-of-age-as-new-technology-questions-follow#>

institutional traders like the volatility: long straddles with a call and put option on either side of the price are popular for them.”

Talent is Flowing

Talent is also flowing from institutional capital markets into the bitcoin ecosystem. Firms such as Circle Financial, a bitcoin consumer finance company, has hired former Goldman Sachs derivatives trader, Joshua Lim as Head of Treasury Management to hedge and trade bitcoin.

For hedgers like Circle Financial, the value proposition is fairly straightforward, according to Joshua Lim. “Circle’s net delta position naturally fluctuates as customers use our conversion service to convert from or into bitcoin. Derivatives – calls, puts and futures – afford us more precise tools to manage this delta risk.”

Getting Physical

Of the half-dozen venues offering BTC derivatives, only LedgerX is aspiring to centrally clear them.

Lim argues that for many BTC market participants, physical settling of derivatives is the most appealing way to hedge. Miners who produce new bitcoin and merchant processors who accumulate bitcoin and disburse dollars would prefer to actually deliver their bitcoin to settle their hedges; meanwhile, consumer on-ramps like Circle Financial would prefer to receive bitcoin on settlement to be able to deliver it to their own end-customers, Lim asserts.

Contrasting Starkly

This all contrasts starkly with Tera Exchange and Digital Asset Holdings.

“We don’t touch bitcoin at all,” explains Tera Exchange’s CEO Christian Martin. Instead, the venue settles in USD and spent about half of its time and money during the past year constructing a BTC index. Meanwhile, Digital Asset Holdings is betting to carve out solutions *inside* financial institutions and use the blockchain to reduce the settlement times for corporate loans from the current T+27 days. “Using this technology, we’re also trying to effectuate settlement of non-digital assets where the evidence of title to the loan is essentially digitized into a token using either blockchain or another distributed ledger” explains financial services veteran Blythe Masters, now CEO of Digital Asset Holdings.

Concluding Points

- **Regulated trading platforms could grow the bitcoin ecosystem with institutional participation.**
- **The CFTC has declared jurisdiction, but not yet issued a bitcoin clearance license.**
- **Diversified, institutional interests from miners, servicers, institutions and proprietary traders enable a natural bitcoin options market.**

“Today we’re seeing experienced finance professionals go to bitcoin firms to manage their position risk— not unlike British Petroleum having professional trading desks that help manage their oil inventory price”

— Paul L. Chou, CEO LedgerX

“The vast majority of our investment and intellectual property is in the software needed to safely custody and settle into the blockchain”

— Paul L. Chou, CEO LedgerX
