

International development of Crypto related financial instruments

Demand for digital asset investments

Driver

- Return
- Diversification
- Hedge

Indirect investments often preferred

- Avoid risk and cost related underlying markets
- Regulatory contains
- Recognized well-known infrastructure and process

Assets

- Derivatives (futures)
- Other financial instruments (funds, securitized derivatives and notes (ETN))
- Acquisitions in companies engaging in digital assets



Growing markets for ETPs

Europe

What:

- First Bitcoin ETP – tracker certificate in 2015 (Nasdaq)
- Physically backed ETN available on a few markets in Europe (SIX, Frankfurt, Nasdaq)
- Number of listings increasing

Why:

- Fragmented market and regulation where some FSA are less restrictive than others
- UK FCA has banned the sell of ETPs to retail
- Self regulation in the underlying market supports development as will MiCA

US

What:

- CFTC allowed Bitcoin futures contract on CME 2017
- SEC allowed the first ETP on futures in 2021
- Many applications with SEC to offer spot ETPs on Bitcoin underlyings, this far declined
- Largest ETP “Grayscale Bitcoin Trust”

Why:

- SEC concerned with price integrity in underlying market and the risk for fraud and price manipulation spillover effects on investors
- CME – regulated process for the pricing of the future contract



Risk mitigation, example: Nasdaq Crypto Framework

Main risks and mitigating actions:

Liquidity and price formation:

- The liquidity and the price integrity of the **underlying crypto currencies**. Only the largest and most liquid currencies are approved given market capitalization and turnover.

Price manipulation and fraud:

- The currencies need to be traded on by Nasdaq pre-approved **crypto exchanges** and the pricing of the instruments need to relate to the prices available on these markets. Transparency and adherence to FATF/AMLD5 recommendations provided is evaluated as well as systems and market surveillance and publicly available price data.

Cyber attacks and fraud:

- The currencies need to be accepted by Nasdaq preapproved crypto custodians. The operational security and adherence to FATF/AMLD5 of the **custodians** that will keep collateral or physical hedge is reviewed.

Legal context:

An EU trading venue must comply with Article 2(3) of the Commission Delegated Regulation (EU) 2017/568 ("RTS 17") when admitting transferable securities to trading. This includes that the securities must be capable of being traded in a fair, orderly and efficient manner

