Bletchley Park Asset Management

Challenges faced by Crypto currency Hedge Funds

October 2018
Cryptocurrency Market Size

Crypto assets continue to gain traction

Great potential for exponential growth compared to the global financial assets economy

$285tn
Global Financial Assets

$7.3tn
Global Equity Market

$200bn
Crypto
Market Challenges

Poor security, lack of liquidity and high volatility create a challenging market

**Major Security Concerns**
- $4bn+
  - LOST IN EXCHANGE RELATED HACKS
- 78%
  - HACKS THROUGH EXCHANGES

**Thin Liquidity for Execution**
- $846mn
  - AVG DAILY BITCOIN SPOT VOLUME YTD
- $1.8tn
  - AVG DAILY FX VOLUME

**Volatile Market Performance**
- 62%
  - BITCOIN 252 DAY ROLLING VOL
- -55%
  - 2018 YTD BITCOIN PERFORMANCE

Source: Hackernoon, Economist, Reuters, Banks.com, Bitcoinity.org, CNBC.com
Client Onboarding

- **Ticket size**
  
  Large number of smaller allocations due to high volatility

- **Subscriptions in Crypto**
  
  Provenance of coins
Operations

- Reporting
  Absence of Prime Broker for reconciliation

- Counterparty risk
  Lack of Transparency

- No Procedural Standards
  API, Reports & time convention
Valuation

- Reference rate
  Exchanges, Liquidity & Timing

- Integration with FIAT
  Portfolio rebalancing & timing of bank wire
Limited global coordination

Differing appraisal of Crypto currencies

US – Commodities

Japan – Recognized as currency

Most regulators are undecided
Tax

- Varying Global Classification
  Limited transparency on regulatory status of tokens creates undefined tax liability

- Off-exchange transactions
  May facilitate asset ownership change at a non-representative prices
The Future

- **Streamlined Subscription process**
  Use of Blockchain to provide secure KYC without paper

- **Blockchain Inter-operability**
  Real time position balances secured by blockchain security

- **Real time client reporting**
  Real time position data and P&L available to Investors
  (Blessing and a curse!)