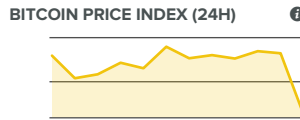




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Ex-Goldman, Paribas Execs Launch Bitcoin Derivatives Exchange

Joon Ian Wong (@jooonian) | Published on February 26, 2015 at 20:50 BST

NEWS

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A new bitcoin derivatives trading platform called Crypto Facilities has launched in London, backed by a pair of co-founders with longtime experience in the City's traditional financial markets.



Crypto Facilities currently lets customers trade just one instrument, a forward contract on the bitcoin price. It currently offers the contract with three expiry dates. A trader can lock in the price of a bitcoin by selling or shorting a forward.

The platform's pedigreed co-founders are Timo Schlaefer, a former executive director at Goldman Sachs in London that worked on credit quantitative modelling, and Jean-Christophe Laruelle, who formerly built trading platform systems for BNP Paribas and Societe Generale.

Schlaefer is coy about his Goldman experience, saying that he isn't comfortable discussing his history at the firm. He said, however, that he left his role there in order to work on Crypto Facilities full-time.

"I left [Goldman] to do this, basically," he said. "It is not [something you can just start with two weeks of preparation time]."

Schlaefer's contacts in high finance have come in handy, as he courts institutional traders who want to get involved with cryptocurrencies, although he wouldn't confirm if any professional investors are trading on his platform, citing client confidentiality.

Growing derivatives space

Crypto Facilities is launching in a still nascent bitcoin derivatives market. Some 806 contracts have been traded for the March forward and about 550 contracts traded for both forwards with later expiry dates, which Schlaefer said he considers "pretty liquid".

Perhaps the best known cryptocurrency derivatives issuer is TeraExchange, which is registered with the US derivatives regulator. It made waves last September with its own bitcoin forward, which it touted as the first bitcoin-linked instrument to be traded on a regulated platform. TeraExchange doesn't publish its bitcoin forwards volume data.

Hong Kong-based BitMEX is another, run by former finance professionals, that has worked to introduce a range of novel instruments to the digital currency space. Among these is a 'fear index' for bitcoin, which tracks the digital currency's volatility and allows traders to make bets on its

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Growing trading volumes on derivatives exchanges should eventually translate into more stable bitcoin spot prices, says Colin Kwan, a former business analyst of futures and options at UBS who is now chief operating officer at leveraged trading provider [BTC.sx](#).

"Just like the traditional markets – going back to wheat and gold – because of the volatility of the weather and things like that, it made commerce very unstructured. It was simple derivatives like forwards that actually normalised the market," he said. "When you start talking about big sums of bitcoin, big movements, then derivatives will reduce volatility and provide a lot more efficiency."

Rush to regulation

Crypto Facilities joins other newly launched UK exchanges in attempting to get under a regulatory umbrella even as the regulatory regime in the jurisdiction remains in flux.

The new exchange's strategy is to use the services of a "regulatory host", a company that complies with the rules of the Financial Conduct Authority (FCA), the UK financial regulator. The host, a firm called [Met Facilities LLP](#), is [registered](#) as a financial services firm with the FCA.

In turn, it has made Crypto Facilities an appointed representative, meaning it has to ensure the crypto exchange complies with the [FCA's rules](#). If there's a breach in conduct by the crypto exchange, the host gets the blowback from the regulator.

But the arrangement is, to some extent, marketing on the part of Crypto Facilities, since bitcoin doesn't fall under the FCA's purview, a fact that Schlaefer readily acknowledges.

"Bitcoin forwards are not part of the regulated activities per se ... What we do is apply the same risk management and compliance framework [to bitcoin forwards trading]," he said.

A London exchange launched last month, [DSX](#), uses a similar arrangement, except the same management team runs both the regulated entity and the crypto exchange. Another exchange, [LazyCoins](#), successfully registered with the UK tax authority as a Money Services Business in a bid to come under official scrutiny.

Bhavesh Kotecha, a managing partner at Met Facilities, said his firm has received enquiries from about 10 cryptocurrency firms seeking 'regulatory hosting' services in the last year, suggesting that this may prove to be a popular route to regulation for UK firms.

For Schlaefer, a bitcoin derivatives platform is just the first iteration of what he hopes will be a long involvement in digital currencies:

"Bitcoin is a special realisation of the blockchain technology ... Whatever the new use of the blockchain technology will be, it's probably going to be some crypto asset, some sort of virtual asset. If you have a framework for how to trade this asset, how to hedge risk and so forth, I think that's quite valuable."

Featured image via Shutterstock

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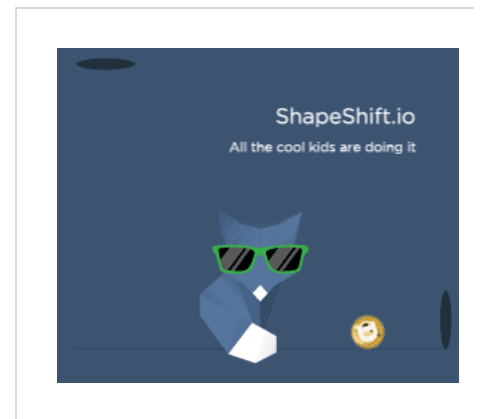
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Goldman paper bitcoins. All the bitcoiners will be jumping on that idea. Jajaja.

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Please help me understand this. Are investors on this exchange holding real bitcoins creating a real demand for bitcoin. Or are they just making fiat bets on the spot price?

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Filip → Ludde70 · a month ago

Good question. It leads us to another one. How bets with no real bids and ask can make volatility more stable? They can't.

1 ^ | v · Share ›

Ludde70 → Filip · a month ago

My thought exactly! It doesn't really matter if they bet on bitcoin or a horse race, he he ;-)

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madtechnician → Ludde70 · a month ago

It does matter because if traders bet hard the price will increase they will buy coins to push up the price, If they bet hard the price will drop they sell coins to create a dip. That is where derivative products can actually create overall stability in the system. The more traders that get into the system the more stable the price will become.

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Bohan Huang → Ludde70 · a month ago

Just fiat bets - no coins

1 ^ | v · Share ›

Ludde70 → Bohan Huang · a month ago

Thanks, Bohan.

^ | v · Share ›

Wolfman Jack → Ludde70 · a month ago

I think with futures contracts you can give someone the option to buy (or sell) bitcoin at a certain price. So if I own 1000 bitcoins and the price is at \$250 I can write a contract giving you the option to purchase 1000 bitcoins from me at a set price say \$275 at any time during the next 3 months. You pay me a small fee to have the right to purchase my 1000 bitcoins. Where it gets interesting is if I write that contract but don't own 1000 bitcoins. If the price goes above \$275 and you decide to buy I have to go purchase 1000 bitcoins at market price (which could be very high) and sell them to you for \$275.

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Such sites/services will bring price stability.

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philip → Todor Tuparov · a month ago

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