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SBI Alpha, QCP Capital, and Zodia Custody pioneer safer and more transparent way to manage derivatives credit risk with industry-first method

Counterparties conduct first uncleared crypto derivatives trades using unique, bankruptcy-remote, multi-custodian collateral network when executing on regulated Clear Markets platform

TOKYO, Singapore, London, Charlotte June 22, 2023 – SBI Alpha Trading Co. Ltd. and QCP Capital Pte. Ltd., leading counterparties in the institutional crypto market, today announced that they have executed the industry’s first uncleared cryptocurrency options trades using a breakthrough risk management method for crypto derivatives.

The traders used a unique bankruptcy-remote, multi-custodian network to ensure that collateral

- is in place at the time of trade,
- can be bolstered by periodic payments in real time on blockchain
- is protected from loss in the event of a counterparty bankruptcy, and
- is locked in an account at an independent custodian under a tri-party account control agreement, allowing a non-defaulting party to take control of the collateral if necessary.

This method of managing counterparty credit exposure, derived from traditional financial markets practices, eliminates significant risks taken by counterparties of FTX and other crypto trading units that have collapsed. This reduces the cost of moving the collateral and enables increased frequency of variation margin payments, reducing the time between price changes and lowering the credit risk.

It builds on techniques widely used in the multi-trillion-dollar fiat currency swap business, under the sponsorship of the International Swaps and Derivatives Association (ISDA), however this is the first time that this approach is being applied to a cryptocurrency swap and automated on a blockchain.

Reflecting the global nature of derivatives activity, the transactions required collaboration across multiple jurisdictions. They were executed on Clear Markets’ regulated trading platform by trading counterparties in Japan and Singapore, who posted Bitcoin (BTC) as collateral using custodians in the U.K. and Hong Kong. The risk management was achieved, in part, using the Corda Network developed by R3, a leading distributed application platform headquartered in New York.

Zodia Custody played a central role in credit risk mitigation as the holder of the BTC that offset the credit risk of the trade. Headquartered in London, Zodia Custody is licensed by the Financial Conduct Authority and is uniquely backed by Standard Chartered, SBI Holdings, and Northern Trust. Zodia Custody Co-founder, Olivier Relandeau, said, “Zodia Custody is able to play a critically important role by improving the practice of collateral management for institutional participants in crypto derivatives. We are making the crypto ecosystem safer and achieving the mission established at our founding.”

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With the collapse of the crypto credit markets earlier this year, rebuilding trust in institutional crypto markets is complex and will require the participation and expertise of both traditional finance and crypto players, as Darius Sit, Founder and CIO of global derivatives trading firm and market maker QCP Capital, observed.

He shared that “This carefully structured approach to crypto derivatives credit risk management is timely where players seek to integrate best practices from both traditional and crypto markets. As one of the first firms in Singapore to start trading crypto derivatives, we are proud to have worked with Clear Markets on these transactions to build a more secure and inclusive ecosystem for all participants.”

Kentaro Kuba, President of SBI Alpha Trading Co. Ltd., said “Custom-tailored crypto derivatives are a market segment with huge potential because they allow traders to assume or hedge exposure to crypto without holding the tokens. Our team has developed a safer way to use crypto derivatives, and we used it for these trades.”

Fernando Luis Vazquez Cao, CEO of SBI Digital Asset Holdings, Inc., said “We are committed to creating an ecosystem that fosters sound compliance and risk management practices in the digital space. Clear Markets contributes to our strategy and this transaction is a great step forward towards industry adoption.”

Said Mark Brickell, CEO of Clear Markets, “The Clear Markets team has applied lessons learned in decades of experience in derivatives and collateral management to deliver safer crypto derivatives trading on a regulated platform.”

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Background

About SBI Alpha Trading Co. Ltd.

SBI Alpha Trading Co., Ltd. Is a subsidiary of SBI Holdings, Inc. SBI Holdings, Inc. manages the SBI group which engages in the provision of comprehensive financial services. It operates through the following segments: Financial Services, Asset Management, Biotechnology-related, and Others. The Financial Services segment covers finance-related businesses and the provision of information regarding financial products including securities brokerage, banking services, and life, property and casualty insurance. The Asset Management segment consists of fund management and investment in Internet technology, biotechnology, environmental energy, and finance-related venture companies in Japan and overseas. The Biotechnology-related segment develops, manufactures, and sells pharmaceuticals, cosmetics, and health foods. The Others segment includes housing and real estate businesses such as the development and trading of investment property and the operation of online intermediate services. The company was founded on July 8, 1999, and is headquartered in Tokyo, Japan.

About QCP Capital

Established in 2017, QCP Capital is a full suite crypto trading firm and global market leader in options, headquartered in Singapore.

With deep multi-cycle experience, QCP Capital unlocks new opportunities for clients at the forefront of crypto markets through providing institutional-grade liquidity, infrastructure and research. An active early-stage crypto and blockchain investor, QCP Capital's portfolio includes core trading infrastructure, exchanges, data and token ecosystems. QCP Capital is supported by over 70 professionals in trading, business development, operations, risk and compliance teams. More information can be found at qcp.capital.

QCP Capital's insights cover weekly trading updates, monthly and quarterly views, and can be accessed on our official social platforms such as Telegram, Twitter, LinkedIn and more.

QCP Capital is an exempt payment services provider pending licensing by the Monetary Authority of Singapore as an MPI for Digital Payment Token services under the Payment Services Act (2019).

About Zodia Custody Limited

Zodia Custody is the leading institution-first digital asset custodian by Standard Chartered, in association with Northern Trust and SBI Holdings. It enables institutional investors around the globe to realise the full potential of the digital asset future – simply, safely, and without compromise. Through the combination of leading technology, custody, governance and compliance, Zodia Custody satisfies the complex needs of institutional investors.

The company implements the requirements of AMLD5 and applies the same standards as Standard Chartered relating to AML, FCC, and KYC. It also implements the requirements of the FATF Travel Rule. Zodia Custody Limited is registered in the UK with the FCA as a crypto asset business under the Money Laundering, Terrorist Financing and Transfer of Funds

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Regulations 2017. Zodia Custody (Ireland) Limited is registered with the Central Bank of Ireland as a VASP under Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (as amended). Zodia Custody (Ireland) Limited was established in Ireland in August 2021. Zodia Custody Limited is registered with the CSSF in Luxembourg as a Virtual Asset Service Provider in accordance with article 7-1 (2) of the law dated 12 November 2004 on the fight against money laundering and terrorist financing, as amended.

About Clear Markets

Clear Markets is a leading innovator, developer, and operator of electronic marketplaces and trading technologies. The company has extensive experience building and operating electronic trading systems for complex fixed income and credit derivatives in the world's major financial centers. In June 2022, the company listed the first uncleared, physically settled swaps, options, and forwards on cryptocurrency on its U.S. CFTC-regulated Swap Execution Facility. It is also regulated in the U.K., by the Financial Conduct Authority.

The Clear Markets management team includes respected pioneers in the development of the interest rate swap market. Their work has earned them a thorough understanding of legal and regulatory history for swaps policy and the transition from voice to electronic trading. Clear Markets has offices in Tokyo, London, New York and its headquarters in Charlotte, North Carolina.