

Cryptocurrencies

LMAX Exchange seeks to win big from trading cryptocurrencies

Forex venue to rival crypto start-ups to attract business of banks and asset managers

PHILIP STAFFORD - LONDON

LMAX Exchange, the UK foreign exchange venue has entered the cryptocurrency market and is brandishing its credentials as a reputable trading platform for banks and institutional investors looking at the sector.

The London group, which trades about \$4tn a year, has added the most widely-traded cryptocurrencies – Bitcoin, Ethereum, Litecoin, Ripple and bitcoin Cash – to its venue.

Digital currencies were developed as an alternative to the global monetary system and as a potentially disruptive means of conducting financial transactions.

LMAX, which is regulated by the Financial Conduct Authority, is seeking to outflank fledgling crypto start-up exchanges whose rapid growth has sparked concerns among traders over their technological reliability, security and money laundering controls.

A more secure market infrastructure for trading cryptocurrencies is seen as encouraging a more active presence by current users such as hedge funds, proprietary traders and wealthy individuals.

LMAX also expects this will eventually encourage banks,

asset managers and sovereign wealth funds to enter the market.

“We believe the banks will come in the next 6-12 months and believe they will come on to venues like LMAX because we are a trusted entity,” said David Mercer, chief executive of LMAX. “We are seeing [names] you would get on other exchanges.”

A report by Tabb Group, the capital markets consultancy, last week said institutional investors have been inhibited from trading cryptocurrencies by a lack of regulatory clarity, data quality and adequate infrastructure.

Monica Summerville, head of European research at Tabb, said funds are “waiting for the right conditions to enter the market, and expected to begin happening this year.”

Tabb estimated that the top cryptocurrency exchanges generate up to \$3bn in daily trading fee revenues.

However, it said the value of institutional investors trading large blocks of digital currency in the over-the-counter market could be at least twice that amount.

LMAX will trade cryptocurrencies on a transparent central order book, which is widely used in the foreign exchange, equities and

futures markets. The group will also offer options to store assets.

Some exchanges serving the cryptocurrency markets act more like brokers as they execute trades but also hold assets on behalf of customers. That has made them a high-profile target for hackers.

They have also sometimes struggled to process the high volumes of trades seen on wholesale markets.

However, start-up exchanges have been bolstering their defences to reassure potential users in recent months.

Coinbase, the US group that owns the GDAX exchange, said last week it plans to upgrade its platform to allow high-frequency traders to match buy and sell orders more quickly.

It will open an engineering office in Chicago, which is one of the world’s biggest hubs for electronic trading, and will launch a cryptocurrency custodian service.

US internet entrepreneurs the Winklevoss twins – Cameron and Tyler – also hired Nasdaq to monitor its cryptocurrencies trading venue, marking the US-based exchange operator’s first such surveillance deal in the sector.