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**Julia:** Hello and welcome to a DerivSource podcast. I'm Julia Schieffer, the Founder and Editor of DerivSource.com.

The emergence of Bitcoin derivatives is something that we've been covering here at DerivSource for the last six months or so, and this space is evolving fast. Specifically, there's been a flurry of activity lately including announcements from new entrants on both sides of the pond who are starting up and clearly are ready and eager to get a piece of the virtual currency pie.

In today's podcast we're aiming to offer you an update on the progress in the Bitcoin derivatives space to date and give you insight into what is likely to happen next.

Here with me I have Ron Quaranta, CEO of Digital Currency Labs, a FinTech and strategic advisory company with the mission to bridge the gap between the digital currencies world and Wall Street. Ron is also director at the Wall Street Bitcoin Alliance (WSBA), which is a trade advocacy group for Wall Street in the digital currency age.

Welcome to the podcast Ron.

**Ron:** Thank you Julia, great to be here.

**Julia:** A comment I get frequently from readers is that Bitcoin derivatives are trendy, as are virtual currencies, but there's been a lot of activity recently, specifically new entrants to the market, so I'm wondering if this activity is pointing to Bitcoin derivatives gaining some real traction. So, is this space still trendy?

**Ron:** Thanks Julia, it's a great question. I believe, based on my participation in the marketplace, that this truly represents growth of the Bitcoin derivatives market. This is not just about trend, we're very much looking at financial markets professionals now getting involved in a very deep way, and the derivatives markets of Bitcoin represent a natural kind of evolution to that professional level of trading that the marketplace needs to see.

**Julia:** Stability is obviously a big concern for the virtual currency space. Is this stabilising at all?

**Ron:** Right, so the price of Bitcoin and the price of Bitcoin derivatives continue to be volatile, given the relatively low liquidity of both. What I would say is that financial markets participants from the stability of their venues, from the stability of their technology, from the stability aspect of their businesses, the market is maturing quite well.

There are, again, very professional level of participants in the marketplace - participants with a very strong understanding of what the financial markets and financial services firms need to be part of this marketplace.

Firms that have very strong anti money laundering and Know Your Customer rules, very powerful business continuity and disaster recovery services. So, all of the foundational requirements to create a stable cash and derivatives market are now truly falling into place.

**Julia:** **It seems that regulation is definitely on its way for the virtual currency area. My question is really do you think that regulation will legitimise Bitcoins and Bitcoin derivatives, and is regulation a good or bad thing for this space?**

**Ron:** I suspect that regulation...financial markets participants don't particularly look at it as either good or bad; they look at it as a cost of doing business in the financial markets. So, overall, regulation, particularly for exchanges, is a requirement, in the absence of regulations it's one of the roadblocks that's preventing the wider institutional participation in the derivatives markets.

As we see the US for example and New York State particularly put forward the specific regulations in place, financial markets firms are looking at that as a level of let's call it professionalism, as a level of engaging in consumer protections that are required to be part of this business.

So the days of Bitcoin exchanges falling under no regulation are rapidly coming to an end, and the professional firms that cater to the financial market participant that will create true derivatives exchanges, anticipate and fully understand that they need to comply with some level of regulation.

**Julia:** **So will the introduction of regulation aid in the progress and future development of the virtual currency space, and Bitcoin derivatives in particular?**

**Ron:** I think the introduction of regulation will lower one of the barriers of true institutional participation in the space, absolutely. The institutional financial markets participants have been living in a world of regulatory requirements to protect customers and to protect systemic markets for quite a long time. Having some level of those safeguards in place will be part and parcel of what makes them participate more fully over the coming years.

**Julia:** **So what is the biggest challenge currently impeding growth of Bitcoin derivatives?**

**Ron:** It's a good question. I suspect, based on many of the conversations that I have in the industry with hedge funds and institutional investors particularly, the lack of liquidity currently is the biggest roadblock. They're not particularly concerned about needing to

comply with the regulation. The ability to access markets that are truly liquid is something that they are very much looking to do.

So as the Bitcoin market and the Bitcoin derivatives exchanges come online, that increases the opportunity to have true liquid venues, and I suspect as these derivatives marketplaces come online we'll start looking at institutional participation which will feed on itself; we will begin to see the evolution of more liquid markets as different derivatives roll out at different capabilities and integration points where the traditional financial markets begin to grow.

**Julia:** Now, Ron, you've already alluded to what you expect to happen next for this space, but focusing on this a little bit longer, what are your predictions for the next several months and beyond?

**Ron:** Right, so let me make some of my relatively standard predictions. I believe we will see more Bitcoin derivatives venues coming online; very professional, very institutional focused derivatives exchanges, particularly in the United States and in Europe.

I suspect that some of the legacy Bitcoin (we can call them cash exchanges), there are a lot of them globally in this space and I suspect we'll see some level of consolidation there as let's call them the relatively low-hanging fruit from a professional perspective, begin to either close up shop or get merged into other exchanges.

I suspect vines will grow relatively slowly until they grow all at once, and the reason I say that is as very specific industries in the derivatives space come online and garner institutional interests, you'll begin to see a lot of institutional money begin to flow into this space. I base that on conversations that I've had in the marketplace as well.

Institutional participants are truly looking to get involved; they're waiting for the marketplace of Bitcoin and Bitcoin derivatives to be able to handle their offerings.

So those are some of my more basic predictions.

**Julia:** Thanks Ron. Final question: are there other shifts in the virtual currency and Bitcoin derivatives space that are currently taking place that maybe you want to mention and share with our readers?

**Ron:** Yes, I just wanted to bring up one kind of commentary I think it's very much tied to the growth of Bitcoin derivatives exchanges and this idea of professional organisations getting more deeply involved. So, we're seeing the marketplace shift; we're seeing a high level of participants coming out of the financial world, going forward into the Bitcoin space.

Professional organisations are launching as well; that will help to shepherd that, so the Wall Street Bitcoin Alliance is one of them. I suspect we'll see more interest and more

uptake in organisations and in that transition to the Bitcoin and digital currency market over time.

**Julia:** Thank you, Ron. Thanks for sharing your insight with us today and keeping us up to date with how this space is evolving.

For listeners eager for more information on this topic, you may want to download our Bitcoin Derivatives Special Report, which is called ***The Virtual Frontier: The Bitcoin Derivatives are Coming.*** Ron Quaranta also contributed to this free report, so it really is well worth a read.

I'll also include links to other related articles and both the **Digital Currency Labs** website as well as the **Wall Street Bitcoin Alliance website** on the podcast notes page which is available on DerivSource.com but also via our free app.

Thank you for listening to this DerivSource podcast, join us next time.