

Edgewater Launches Equity Offering for Crypto Spin-Off

Galen Stops | June 12, 2019 | 1:36 PM



Edgewater Markets has launched an equity offering for its new crypto-focused spin-off, Edgewater Digital Technologies (EDT).

EDT plans to launch a digital asset trading platform – Crypto Prime Trader – later this year, and to help accelerate its development and launch, Edgewater is offering up to \$25 million of preferred equity in a private placement. The managing broker-dealer for this offering is Rialto Trading Network and the co-manager is Venture.co Brokerage Services.

Mike Naylor, managing director of EDT, explains that the firm plans to raise this capital by leveraging blockchain technology by issuing the equity as security tokens.

“Specifically, we are issuing a 506(c) Reg D/S equity security token, to broaden our investor base and tap into demand for security tokens. Security tokens enable automated compliance through smart contracts, efficient shareholder management and the potential for investors to have liquidity on digital security exchanges, and issuance can be achieved without traditional intermediaries,” Naylor tells *Profit & Loss*.

He explains that the private placement memorandum (PPM) for the equity offering was specifically positioned as an equity security token and that, following an initial 12-month period during which the tokens will only be available to accredited investors, they will then trade on a number of digital asset exchanges.

Naylor adds that the capital raised via this security token offering (STO) will be used to accelerate the development of the Crypto Prime Trader platform, establish a 24/7 live multilingual trading support function and fund all the necessary legal and regulatory compliance work ahead of the launch.

“Edgewater Markets, which is CFTC regulated and registered with the NFA, has always been very methodical and conservative about building our business in full compliance. We will continue to do so with Edgewater Digital,” he says.

Naylor describes the platform itself as an “institutional on-ramp” for trading digital assets.

“Many of Edgewater’s existing institutional clients are looking for solutions to help them access the crypto markets and so we’re building this on-ramp to make it easy for them,” he says. “Edgewater Digital will have principal trading accounts, which means that for firms who are new to the crypto markets, rather than having to go through AML and KYC in 10 different places, can just do that once with Edgewater Digital and have access to the vast majority of the liquidity in the market. Meanwhile, for firms that already have accounts at exchanges or an OTC desk, we’ll enable them to aggregate that liquidity through our platform, as well as use algos to execute their trades.”

Naylor argues that the structure of the crypto market is evolving in a similar way to FX, and therefore Edgewater’s traditional expertise is particularly applicable to it.

“Some firms are coming into the crypto markets with an equity background with technology that’s based around an exchange traded environment where there’s one bid-offer and speed is of the essence, but that’s very different to the micro-structure of OTC FX, where liquidity is fragmented, there’s hundreds of points of connectivity globally and you need to be able to aggregate this liquidity in order to be able to execute efficiently. So our core competency is our technology and fragmented liquidity management, which we think is very relevant for the crypto space,” he says.

The big difference that Naylor identifies between the crypto markets and OTC FX is that in the latter, prime brokers offer credit and settlement services. He adds that the EDT platform will have a solution that addresses the current lack of these services in the crypto space, but declines to offer more details until closer to the launch itself.

Naylor adds: “This won’t be a winner takes all market, there will be a number of different platforms and Edgewater’s existing client base gives us a good growth platform. We will be differentiated based on execution – if you’re a trader you’re really not focused on the fancy GUI graphics, although ours will look nice, you’re focused on the execution, on being able to execute large institutional size trades with minimal market disruption. Because that’s the real cost, even though some of the exchange fees are pretty egregious, it’s small potatoes compared to the cost of a big, market disrupting trade.”

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