

FCA opens the door to crypto for UK Professional Investors via LSE listings

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Key Takeaways

- The UK is catching up with other developed markets by making it possible to trade certain crypto ETPs on the London Stock Exchange.
- UK multi-asset investors will need a strong and clear investment thesis if they decide to actively underweight the crypto asset class by not investing in Bitcoin and/or Ethereum ETPs.
- Related Products WisdomTree Physical Bitcoin, WisdomTree Physical Ethereum Find out more

The UK is making strides in the crypto market. In March 2024, the UK Financial Conduct Authority (FCA) announced that it 'will not object to requests from Recognised Investment Exchanges (RIEs) to create a UK listed market segment for crypto asset-backed Exchange-Traded Products (ETPs) 1'.

Following this update from the FCA, the London Stock Exchange (LSE) announced that it would begin accepting applications for listing Bitcoin and Ethereum crypto ETPs from 8 April 2024. They also earmarked 28 May 2024 as the potential start date for trading these securities².

Listing criteria for crypto ETPs

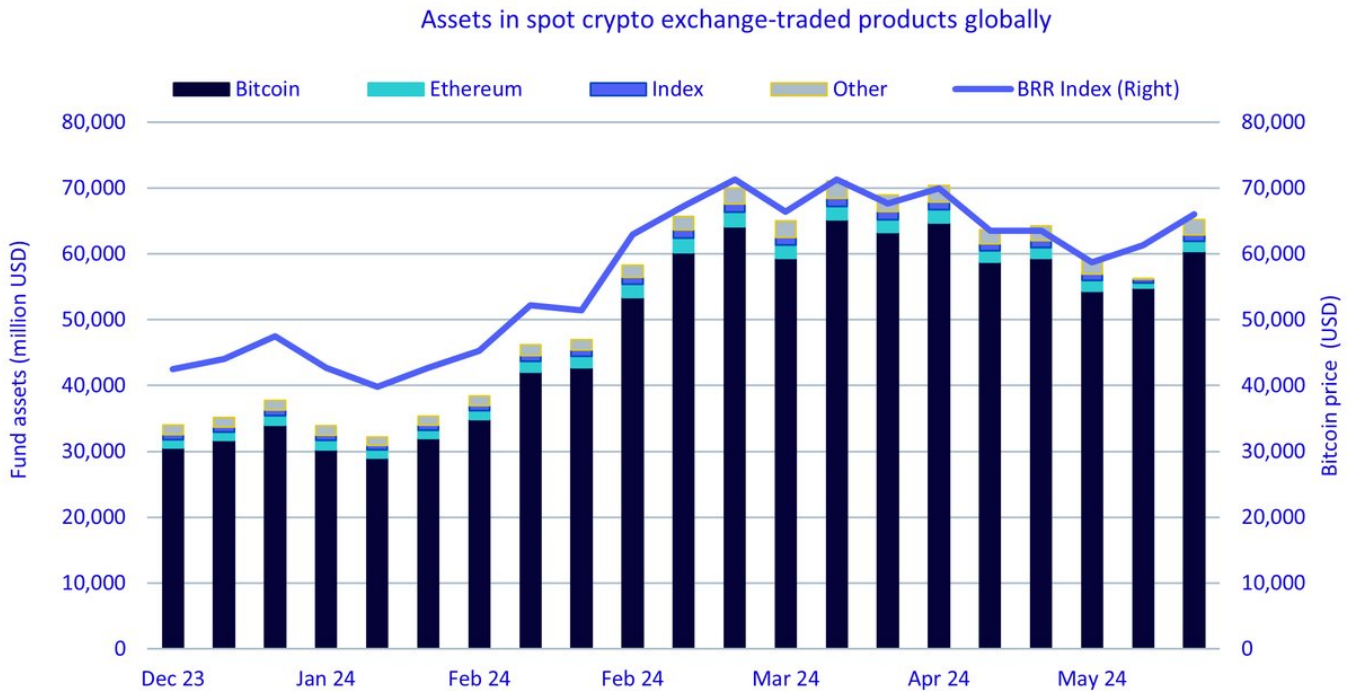
The LSE also released a crypto ETP admission factsheet that detailed strict criteria for listing these products³:

- The crypto ETP must be physically backed by an actual crypto asset, specifically Bitcoin or Ethereum, and the asset needs to have a reliable and publicly known market price.
- The crypto asset backing the crypto ETP must be stored securely, and the custodian(s) holding these assets must comply with Anti-Money Laundering (AML) regulations.

However, due to the FCA's restrictions, only professional investors will be able to trade these crypto ETPs on LSE. This is based on the FCA's belief that while increased crypto insight and data now allow exchanges and professional investors to better establish whether crypto ETPs meet their risk appetite, crypto assets are high-risk and largely unregulated.

Investment implications

This development opens the gates for UK professional investors to invest in Bitcoin and/or Ethereum within a wrapper they are already comfortable with and trade it on a familiar exchange. These wrappers have been available to many other professional investors across the globe for quite some time now, with the most notable recent offerings coming out of the US in January this year, sparking significant inflows. These inflows and positive price action have led to the approximate doubling of the global market for spot crypto products year to date. As professional investors continue to evaluate and allocate to crypto, early movers have so far had the benefit of capturing the continued growth and adoption of the asset class.



Source: Bloomberg, WisdomTree as of 16 May 2024. BRR Index represents CME CF Bitcoin Reference Rate Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

As outlined in our blog, 'How much should a neutral investor allocate to cryptocurrencies?', the multi-asset investor needs to have 1% of their portfolio invested in crypto assets to be market neutral. By not investing in crypto assets, investors are, by definition, taking an active bet against this asset class, and any active bet needs to be based on a strong and clear investment thesis.

The wrapper's operational structure allows easy integration into investors' existing trading and portfolio management systems. For example, once the multi-asset investor updates their asset allocation decision, they can seamlessly increase or decrease their exposure to equities, fixed income, alternatives, and crypto assets.

WisdomTree's role

WisdomTree was the first established ETP provider to launch a physically backed crypto ETP – [WisdomTree Physical Bitcoin](#) – in the European market in 2019, followed by [WisdomTree Physical Ethereum](#) in 2021. As such, WisdomTree’s products have a sufficient track record for investors to assess how well they suit their portfolios.

WisdomTree utilised its years of experience providing secured physical commodities ETPs and borrowed the same tried-and-tested product structure to launch effective crypto solutions for investors. As a provider specialising in both traditional and crypto assets, WisdomTree works with the best counterparties in the industry, has a diversified business, and achieves economies of scale.

Currently, WisdomTree provides five single-coin products and three crypto indexing solutions in Europe. Some products also provide advanced crypto features, such as staking. This is a one-stop solution for investors wanting to gain exposure to crypto assets without the hassle of dealing with custody and crypto trading themselves.

Sources

1 FCA, March 2024. <https://www.fca.org.uk/news/statements/fca-updates-position-cryptoasset-exchange-traded-notes-professional-investors>

2 LSE, March 2024. <https://docs.londonstockexchange.com/sites/default/files/documents/n0324.pdf>

3 LSE, March 2024. https://docs.londonstockexchange.com/sites/default/files/documents/crypto_etn_admission_factsheet.pdf

Important Risks Related to this Article

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