

# STO fund spinoffs and the future of finance

29 April 2019

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# Where we are

- We have the vision and the technology
- We now have a stable platform – Great job!!!

# What next?

- Right now everything is a bit frozen because we have not found the right business models
- We need a catalyst to move things to the next level
- An STO hedge funds can be that catalyst

# Business models that do not work

- DAOs – Humans needed
- Vertical integration – Nothing new
- Horizontal integration – Will not work without all piece
- Gatekeeper – We are trying to get rid of gatekeepers

# Why vertical integration will not work.

- Securitize, Harbour
- Forces companies in existing markets to use existing workflows. So what is the point?
- Regulatory limits will prevent companies from easily moving into new markets.
- Vertical integrated workflows are vulnerable to chokepoints and vetos. If one part of the your workflow does not work, then everything falls apart.

# Why horizontal integration will not work

- Polymath
- The problem is that you need a mature market before you can integrate horizontally. What is the point of having youtube before you have the internet?
- Regulation and market structure will fragment horizontal integration. If you have something that can do custody in the US, you cannot easily do custody outside.
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# Other issues

- Service provider model has conflict of interest. Service provider wants to increase lock-in and costs. User wants to reduce lock-in and costs.
- What happens if the service provider fails?

# Unable to pivot

- Normally if you are a startup and you find yourself in the wrong market, you can pivot and change your clients and business model
- However, STO companies in the developed can not pivot because the regulatory environment prevents pivoting.



# What to do

- The ecosystem that will work is a network model
- What we need is a catalyst
- Two small projects

# Spin-off model

- Find existing hedge fund
- Create infrastructure to do STOs internally as cheaply as possible
- If there is no market demand, then you just keep running the company.
- If there is market demand, then you spin-off the company.  
Examples: American Airlines and SABRE. Alibaba and Ant Financial. Fidelity National Financial and Black Knight. Morgan Stanley and MSCI etc. etc.

# Other things people get wrong

- Business process optimization model
  - BPO model involves standardizing systems. This will not work in situations where you need flexibility
- US focused market
  - Regulators and entrenched interests will end up killing STOs in US. Need to be able to pivot to non-US markets. Master-feeder fund structure will allow operations in both US and non-US markets

# Two projects to change the world

- Minimal STO
  - Show people how to do an STO
  - Provide liquidity to hedge funds investors
  - Open up the STO market
- Factoring HK grants
  - Show people how to do STOs with fixed income
  - Provide liquidity to Hong Kong companies

# Minimal STO

- Issue STO and modify subscriber agreement
- Set up a chat room
- Provide trading desk liquidity and have fund act as market maker
- Tell the world

# Hong Kong grant products

- Hong Kong government issuing grants, but companies need to pay out six months
- Banks and traditional securitization unable to lend against receivables
- We can do it with the existing infrastructure
- Create fixed income product
- Prototype for fixed income products worldwide

# Why this product

- Demand exists and banks are not interested in servicing this market
- Manageable credit risk. Because the grants are given against grants by the HK government, no need to do credit scoring as long as documentation is good enough to insure recovery
- Because the notes are grants are issued by the HK government the grant procedures are transparent
- Particularly good optics and able to connect to high tech startups

# Bootstrap Costs

- Grant from HK government available – 32000 HKD per month from Cyberport on six month reimbursement cycle
- Need two to four test clients – 13500 HKD per month for six months to get initial STO
- Uses existing hedge funds infrastructure
- This can be done. No one else is doing it