

Crypto OTC

Cryptocurrency Over-The-Counter Trading Desks: A Comparative Research.



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Introduction

Over-the-counter trading is a framework of financial technology that enables trading a market outside a regular exchange. Specifically, in the crypto market, it is a private trading market for buying and selling crypto assets. There are considerable variations at different levels depending on the actors of the exchange and the market forces of each period. It is therefore, a closed market for transaction execution based on trust. Trading market or trading desk is needed for an imperative transaction.¹

Here, we would be reviewing different over-the-counter trading desk strategies as well as a review of different OTC platforms.

Over-The-Counter Trading Model Strategies

There are two major strategies for every OTC trading desks. However, within these two strategies lie different features of trading executions. They are:

1. The Dealership Trading Model Strategy.
2. The Agency Market Trading Model Strategy.

The Dealership Trading Model, also known as “trade with principal desk” is a strategy that requires the desk to trade on behalf of it’s customers using the platform funds. They take a principal risk by using their funds to purchase assets upon client’s request. This is done with a signed legal agreement between both parties. Desks using to this strategy are impacted on a heavy risk because trade failure falls on them regardless of what was on the agreement. Whether prices of assets plummets or rise before they attain the customer’s request, they are bound to fulfill such request.

Agency Market Trading Model on the other hand is a direct opposite of the dealership model. In this model, the desk does not trade with their own funds, and do not pay market

¹ <https://yellowcard.io/blog/what-is-crypto-otc-how-does-it-work/>

risks. In such platforms, customers are obligated to pay a percentage of the trade as a commission fee. They act as a middlemen and assets are traded. The responsibility of the trade is upon the customer, not the project.²

Over-The-Counter Trade Execution Models

OTC desk operates to satisfy clients with large amount of crypto assets and currencies to be moved or traded at once. There are several models by which they operate. Either by trading at the exact quoted price or at a discounted quoted price. With any of these models, their inventory is needed to be balanced.

Sometimes, platforms offer clients a price lower than the actual price. For example, if the price of the asset is \$100 and they bid it to them at 99 ⇔ 101 offer, giving them the opportunity to get their asset at that price. As long as the price is better than the average order book slippage price, the desk would have saved them money (the customer). Why would they do this? The desk is selling to them at 101, buying from them at 99.

Notably, over-the-counter desks have inventories using this strategy, they are either too long or too short of their own inventory. They definitely have to figure out how to get rid of the inventory in their balance sheet whether too long or too short. This can only be possible with a strong execution mechanism. That is, a very good business model OTC. They have a better execution than the counterparty they trade with, giving them some sort of net value shared between both. The counterparty gets better slippage, gets a favorable price, and the OTC desk take some margin, known as spread. It is a win-win situation for both parties and it's effectively execution arbitrage.

Below are the ways to manage inventory:

- 1. Multiple Exchanges:** One of the ways platform desks use to manage inventory here is using the multiple exchange mechanism. They have multiple access to all different exchanges in the world. They have some smart routing on their systems, and at anytime, whenever they need to hedge off risks, they pro-route to distribute the order to multiple exchanges with a scheduling structure. With this strategy, desks slowly massage the market, minimizing the market impact as much as

² <https://medium.com/circle-research/how-does-crypto-otc-actually-work-e2215c4bb13>

possible. There are risks involved, as a matter of fact, a huge risk. The slippage and impact will be better otherwise, because they do it a little bit slowly and less aggressively into the market over time.

2. **Internal Flow:** Another significant ways to manage inventory is that, there is a whole lot of OTC desks or bunch of desks and sometimes, they share this flow with them. Assuming the counterparty buys 2000 Bitcoin from the desk, they make a decision to buy 500 Bitcoin from another OTC desk. The counterparty pays them, and the desk pays another OTC desk. This gives a little bit less risks to the desk books and overall, if there was another OTC desk, they could also for the other 500 Bitcoin share the flow, or they work the other on the market. However, a very definite strategy to rid off inventory is to share flow with other desks.
3. **Matching Counter-flow:** The last strategy to manage inventory is to warehouse the risk and wait for a matching Counter-flow. This seems the most valuable and probable strategy. For example, Barley comes in and bought 100 Bitcoins from the desk, Bob comes in half an hour later to sell a 100 Bitcoin. With this, naturally, the risk/position is balanced. Inventory risk is carried out for half an hour. In doing this, they get to avoid the need to have any hedging cost at all. Profits were made with the spread with Barley, and profits were also made with Bob. Rather than profiting from Barley, and still lose, or at least a part of that in the hedging process and getting rid of exposure. This theory works with both the principal desk and the agency Market model.

For a dealership over-the-counter model, there are no fees. Everything is fixed into the spread itself. The spread, is in the combination of both hedging cost and the profit. On the other hand, is the agency model. It is a Game Theoretic model that deals with mindset. This means that if an agency wants to work with a customer, they are (the customer) going to pay a commission to the agency no matter how well the agency does. There are no or less incentives attached to this model. A bad trade results in a massive spillage, but the agency still gets paid. Also, if the trade comes with a good result, they get paid the agreed amount, no real incentive or bonus attached.³

Communication

A significant measure of an over-the-counter platform is their communication model

³ <https://nomics.com/blog/flippening/crypto-otc-desk-galois-capital-kevin-zhou>

strategy. The first model of communication is the Know-Your-Customer (KYC), that is a compulsory model for every centralized OTC desks. However, knowing the customer alone does not fill in the space, there is a need to build trust with the customer desks are relating with in order to leave a positive impact on them for future purposes. There are two basic communication types in a crypto OTC. They are;

- Flexible Communication.
- Rigid Communication.

Flexible Communication is a model used by an OTC platform that involves opening all access to engage with customers. That is, as soon as they get in touch with customers, they are allowed to fix or pick the communication channel they deem the best. This channel is assumed to be private to them. Examples of communication channels are; WhatsApp, WeChat, Skype, Telegram, Google Hangouts and much more. When this channel gets opened, all traders are brought in, the counterparts also bring in their authorized traders in order to request a quote at any point in time.

The rigid communication system is a system built-in on the platform. They engage on the platform till the process ends. There is no room for other communication channels.

Type of Quotes:

There are two types of issued quote in a crypto over-the-counter desk. They are:

- Two-way Quotes
- One-way Quote

The most common one is the two-way quote model. It is requested for two major reasons.

1. Not to reveal any information about what direction they actually want to go. This integrates value and builds trust in platform desks. The other one is;
2. To see how tight the OTC desk really is.

For a single-quote model, there is necessarily no reference to how wide the actual spread is. Customers don't know if they are leaning⁴ up their quotes based on their own inventory.

⁴ Leaning: If a desks purchased a bunch of Bitcoin, and they are holding onto some sort of inventories that are acquired relatively cheap, but, there are still a whole lot of upside. It they sell for a little bit below the

Therefore, they know less how competitive they are with other desks.

Over-The-Counter Desk's Business Models

OTCs are attached to different models of other businesses. With these business models, they are able to decide on how to manage inventories, and as well determine their execution strategies. There are models such as, Hedge Funds OTC, Trading Exchange OTC, Mining Company OTC, Asset Management OTC (a very good model), etc. There are some, who lonely focus on OTC trades, with enough market share, and a good flow, they have a solid business. Given that, there are enough networks and solid relationships in their radar. This helps them with execution over time. They don't bother to build their own execution models. A very good example is Globe Service, a Request-For-Quote (RFQ) system with Bots communication model. There is no guarantee access to the people behind the business.

Hedging Costs

This is defined as the cost an over-the-counter trading desk bears in order to facilitate liquidity. If a million dollar worth of Bitcoin is sold to someone, it is a necessity for the desk to find a way to cover itself in order to have a balanced inventory. This either by lit venues⁵, through exchanges, or through the warehouse model. That is, they warehouse the risk, and wait for a matching Counter-flow.

current spot price, that would be leaning down. They are not leaning heavily. However, if they cross the current spot price, they are leaning heavily up. For example, given a $99 \rightleftharpoons 101$ offer, that is, 99 bid 101 offer. Leaning down could be like $98.5 \rightleftharpoons 100.5$. That is still very neutral. However, if there are severe inventory imbalances, they could go like $96 \rightleftharpoons 99$. That depends on how the desk manages their inventory.

⁵ Lit venue is a sort of transparent trading venue versus dark venues, where no information is revealed.

Six Best OTC Desks of 2022: A Review and Comparison

In this section, we will be reviewing different over-the-counter trading desks.

❖ **Satstreet:** Best in Trading Volume

Satstreet is a white-glove trading desk built for High-Net-Worth investors and corporation. They take a highly personalized approach to crypto investing, focusing their efforts on offering excellent service to a specific segment of the Canadian Market.

Features:⁶

- Very low fees on large order volumes.
- Very deep liquidity to prevent price spillage.
- Supports Bitcoin and Ethereum. It does allow access to the widest selection of crypto assets for accredited investors in Canada.
- Dedicated account managers provide topnotch supports.
- Deep security expertise and customize security setups.

⁶ <https://satstreet.com/sign-up-forms/yoreoyster>

- Quick Banking Settlements.

Pros and Cons

Pros:

- Competitive trading fees of 1%.
- Deep Order Books with huge liquidity.
- Quick account settlements.
- Grants every user a dedicated support representative.

- High and tight security standards.

- Has its Mobile App.

Cons:

- No pricing information readily available.
- Not ideal for regular crypto trading.

Summarily, the Satstreet over-the-counter trading desk is an Agent Market OTC with 1% trading commission. However, they have a very large volume of transactions trading with a minimum of \$25,000 and a maximum of \$100M+ trade amounts. They as well, have a good rigid one-on-one communication system with a dedicated specialist. They operate under the Canadian's National Financial Transaction Agency (FINTRAC), as a Money Service Business (MSB). This implies that their business model is the asset management OTC model which is a great one because their execution model is a more of a profitable one. They are best known for low fees and VIP treatment on large orders.

❖ Coinsquare Wealth: <<Versatility>>

Coinsquare wealth is a crypto over-the-counter trading desk owned by Coinsquare,⁷ a Canadian crypto exchange. They operate a personalized service from its wealth director for every individual user. They also allow a crypto-to-crypto trade between 40 crypto assets.

Features⁸

⁷ <https://app-new.coinsquare.com/cob/sign-up>

⁸ <https://www.yoreoyster.com/review/coinsquare>

Cryptocurrency Over-The-Counter Trading

- Enhanced liquidity pools for large crypto trades.
- Personalized Service.
- Crypto-to-crypto trades.
- Banking relationship with American and Canadian Banks to allow for some day-to-day settlements.
- Wealth Directors offer market insights for a well-informed trading decisions.
- Supports 860 trading pair options.
- 24/7 customer support is available through live chats, email, and phone.

Pros and Cons

Pros:

- Enhanced liquidity pool that prevents slippage.
- Has extremely quick account settlements.
- Grants every user a dedicated wealth investor.
- Has topnotch security standards similar to it's main crypto exchange service.
- Allow crypto-to-crypto trades for added comfort.

- Supports an astounding 860 trading pairs.

Cons:

- The platform can only be used if you meet one of two criterion (You either need a large trading volume (\$50,000 or more) per year or have assets greater than or equal to \$500,000.
- No pricing information readily available, you need to consult directly to get it.

The Coinsquare OTC desk trading model uses a commission model, that is, an agency market model. Their fee is 1% of the transaction maximum. They have a flexible communication structure with mails, phones and other channels. Being an exchange, and

their relationships with the American and Canadian Banks shows the type of business and execution model they have, a structured one. Their execution model are; aggregate liquidity from exchanges, market makers, and internal order-flow. The Coinsquare desk is best for traders looking for a platform with wide area of supported pairs.

❖ **Kraken: Best For Commission Free Trading**

Kraken⁹ is an old cryptocurrency exchange founded in 2011. Its over-the-counter desk accepts over 45 different tokens and a wide variety of fiat currencies (USD, EUR, CAD, GBP, CHF, etc.) It is a commission free OTC trading platform.

Features¹⁰

- Expert market insights from members that have previously worked at major financial institutions (such as JP Morgan and UBS).
- One-on-one communication services that will answer every question you have regarding the process.
- A wide array of supported crypto assets.
- 24/7 services.
- Commission free trading.
- Deep liquidity pools that prevent slippage.

⁹ <https://www.kraken.com/features/otc-exchange>

¹⁰ <https://www.yoreoyster.com/review/kraken-canada/>

- Introduced the Auto RFQ 4 months ago.

Pros and Cons

Pros:

- Liquidity pool prevents spillage, saving you money in the long term.
- No fees attached to using the platform.
- 24/7 support services through live chat, email and phone.
- The platform expert's market insight allows you to make better crypto investments.

- Supports crypto-to-crypto trading.

- Strong security standards similar to it's main exchange platform.

Cons:

- It has a high minimum order size of \$100,000.
- Based in the US, there are strict regulations of the IRS to be complied with.

Kraken operates on a dealership model with a no commission but spread earning measures. This implies that their business model is the trading exchange OTC model. However, their trust is built upon the market insights given by experts from world big financial institutions. Kraken's communication model is a well structured, flexible model alongside the Auto Request-For-Quote (RFQ) introduced months ago. It is platform for traders with high net worth looking for a commission free OTC desk.

❖ Coinbase Prime: Best for Security.

Coinbase is an American cryptocurrency exchange founded in 2012, one of the oldest. The over-the-counter platform, Coinbase Prime¹¹ grant users access to a diversified liquidity pool, OTC Block trading, margin finance, high touch 24/7 support with market commentary execution algorithms, and so much more.

¹¹ <https://www.coinbase.com/prime>

Features¹²

- Offers a diversified liquidity pool that prevents slippage.
- IT has a smart order routing algorithms that sends your orders to the supported exchange with the best all-in-prices.
- Has its own Mobile App that allows transaction review and trade on the go.
- It has a highly responsive one-on-one customer support 24/7.
- It has a cold storage policy to keep funds safe.
- Supports staking of crypto assets.
- It has a though post-trade reporting analytics that you can access at any time.

Pros and Cons

¹² <https://www.yoreoyster.com/review/coinbase-canada>

Pros:

- User access to both real time and historical analytics for crypto spot and derivatives market.
- Allow users trade on the go with it's intuitive Mobile App.
- The platform algorithms optimize your trading based on your trade execution goals.
- Crypto staking allows you to earn passive crypto income.
- One-on-one customer support is always ready to answer questions

immediately.

- Has its own portfolio tracker for each of the crypto investment project.

Cons:

- No pricing schedule information readily available on its site, and users will have to upgrade to Coinbase Pro to find out this schedule.
- It was originally designed for institutions, meaning, it has a high minimum order sizes.

Coinbase Prime, being the over-the-counter trading desk for the Coinbase exchange, operates on an agency market model with a fee differentiation between user's trade volume. It is a platform built with a high multilevel security and extensive incentive mechanisms to stimulate users. The major execution business model for Coinbase Prime is the exchange trading OTC model. However, it does its all to satisfy its users through a life time analytics, market information, as well as the portfolio tracker. Their communication system is channeled via the mobile App, a rigid system where there are no other channels to communicate with clients. However, with the analytics aid, they have covered majority of the communication lag. This platform is best for institutional investors.

❖ Binance OTC: Best for Retail Traders

The major characteristics of the Binance over-the-counter desk¹³ is its huge array of supported crypto assets. It is as big as the retail exchange token list. The avenue for trade between these tokens are guaranteed. Likewise, there is an avenue for account creation and settlements without any third party involvement, which amuses security. The platform has a minimum order of \$10,000 size.

Features¹⁴

- Personalized for every user, with assistance every step of the way.
- A huge array of supported cryptocurrencies (300+).
- Supports crypto-to-crypto trading.
- Fast account settlements that finishes within minutes.
- Reduced counterparty risk, as you only send coins to your Binance account.
- Beginner Friendly.

Pros and Cons

¹³ <https://www.binance.com/en/convert>

¹⁴ <https://www.binance.com/en/blog/otc/making-a-big-trade-try-our-convert-otc-portal-421499824684900491>

Pros:

- Low minimum order size allows more users to get into crypto OTC trading.
- Fast account settlements allow you to trade OTC right away.
- Easy to use.
- Personalized service grants answers to any questions you could have regarding the platform's usage.
- It's huge array of crypto assets

allow you to greatly diversify your crypto portfolio.

- Has a deep liquidity pool, particularly, in the altcoin markets (even for altcoins with low market cap).

Cons:

- The American version of the platform, Binance US, is limited to 12 coins.
- The platform is not ideal for buying smaller amount of cryptocurrencies.

Binance is a big exchange introduced in 2017. It operates on a dealership model with zero commission fee, transactions are executed on behalf customers. With the Request-For-Quote (RFQ) Bots, trades are made faster. It's business model lie within the trading exchange. However, the major significance of Binance is the array of liquidity pool. This is because of it's reputation in the space. With all activities on the platform, counterparty risks is reduced.

❖ BitFinex OTC: Best For Complex Trading.

Founded in 2012 is BitFinex¹⁵, with headquarters at British Virgin Island. This platform is closely associated with Tether (USDT), as they have both their management and many shareholders in common, leading to several regulation issues. BitFinex has a decentralized OTC desk that allows you to trade ERC-20 tokens with fee as low as 0.02% (updated Sept, 22) per transaction, which is very competitive. It is a Peer-to-Peer OTC platform where you search and do your research about buyers yourself or look for a third party brokers who would help you find buyers.

¹⁵ <https://www.bitfinex.com>

Features¹⁶

- Deep liquidity pools.
- Order types on the main platform are also supported on the OTC desk.
- Solid security measures.
- A very wide array of supported cryptocurrencies (270).
- Low OTC trading fees of 0.02% for centralized and 0.1 for the centralized OTC.
- Paper trading features for beginners to learn to use the platform.
- It has a big bounty program that will reward you for spotting bugs and security vulnerabilities on the platform.

Pros and Cons

¹⁶ <https://www.yoreoyster.com/review/bitfinex>

Pros:

- It has many supported order types (including stop limit, trading stop, fill or kill (FOK), and lots more.
- Its low fees will save you money on crypto investments.
- Beginner friendly with proper trading features.
- Its wide array of supported crypto assets allow you to diversify your portfolio considerably.

- It's deep liquidity pools prevent any slippage from happening.
- Has a mobile App.

Cons:

- Not available to Canadian users in Ontario.
- The main trading platform has a history of fines and issues with regulatory entities.

BitFinex is a superb, over-the-counter platform with complex trading systems. It operates on a agency market model with 0.02% trading fees. The decentralized trading platform, also known as EthFinex is operated without a third party. The fee here is at 0.1% . BitFinex execution model remains in the exchange. This is because they had many regulation issues in the past and there is no guarantee of building relationships or other models for inventory management. Thus, causing a complex trade mechanism.

Common Features In The Over-The-Counter Desk Model Strategies

- ❖ Liquidity Pools: There is a deep liquidity pool with large volume of liquidity in all OTC desks.
- ❖ Security: Security is a necessity for all desks. They do their best to maintain a high level of secured trade.
- ❖ Communication: All over-the-counter trading desk ensure there is an effective method of communication with their clients.
- ❖ Execution: This is attached to the business model for every OTC desk. Depending on what model they use, they execute trades perfectly and safely. There is a need

for execution in order to manage inventory.

Differences Between Over-The-Counter Trading Desk Models

Description	Satstreet	Coinsquare Wealth	Kraken	Coinbase Prime	Binance	BitFinex
Model	Agency	Agency	Dealership	Agency	Dealership	Agency
Communication	Rigid	Flexible	Rigid		Rigid	Rigid
Execution	MSB	Exchange Trading, Market Maker, Internal Order Flow	Exchange Trading and Banking	Exchange Services	Exchange Services	Exchange Services
Supported Crypto	BTC & ETH	Few crypto assets with 860 trading pairs. Also, 40+ crypto and CAD+USD fiat.	45 crypto assets and fiats (USD, EUR, CAD, GBP, CHF, ETC)	Varieties of crypto assets	300+ crypto assets	270+ crypto assets
Unique Value Proposition	Trading Volume	Versatility	Commission Free Trading	Very High Security	Retail Trade facilitation	Complex Trading

Decentralized OTCs: GigaSwap

GigaSwap¹⁷ is a decentralized application built with the aim of allowing users securely swap any crypto asset, whether fungible or non-fungible, across any chain over-the-counter (OTC) between two independent parties without any third party intervention. The decentralized OTC uses the Constant Product Market Making Mechanism to trade these assets. (That is, $X*Y=K$).

Pros:

- Direct control of ownership.
- Low fees due to scalability.
- No transportation limits.
- No risk of losing assets over information leakage through KYC.

Cons:

- There is a huge risk when users lack education of how it works.
- There is also a knowledge risk as related to DeFi Security. Hacks and scams are vulnerable.
- Slippage and price impact volatility may not be managed.
- Whales take advantage of the inexperienced via front-running or chart manipulation.
- Many choices of trading platforms, each with significant limitations leading to

¹⁷ <https://gigaswap.app>

confusions and potential missed opportunities.

There are as much crypto over-the-counter platforms such as HotBit, Crypto.com, Yellow card, Huobi, and lots more. Every of these platforms have each feature of the evaluated desks. There is no good strategy, and there is no bad strategy. The two major model strategy are the Dealership Model and the Agency Market Model. However, within then are other factors. Majority of protocols use the agency market model. This is because, they don't want to be responsible for any risk that occurs within the trade. Also, they don't trade with their funds on behalf of any customer, but rather act as a middleman to trade the assets for them while they pay commission fees. This is the safest strategy accredited with various factors that serves as incentives. On the other side, the dealership strategy trade on behalf of clients with their funds, willing to take all risk involved during the execution. However, this measure builds more trust with clients while the platform gains spread during the execution. However, there is no fee or commission attached to this kind of strategy.

Therefore, I would strongly recommend that every models and features should be fact checked, and customer incentive drivers should be nurtured. Also, a model that seems plausible to execute to the reader should be picked for building.

References: A Few PDF Books and the links below;

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