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Crypto for normies: EDX puts old twist on new asset class

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Citadel-backed venue applies trad risk concepts to digital assets – now it's trying to snag the banks. By *Duncan Wood*

When a quartet of big markets firms were looking at bitcoin in 2022, they saw a lot to like: record highs, regular volatility, claimed diversification benefits, and massive growth potential.

It came with a lot of weird baggage, though. The cryptocurrency market's practice of settling trades instantly meant it was difficult to trade on credit limits, which makes back-and-forth execution more efficient in traditional financial markets; and the fragmented crypto landscape was made up of odd-looking venues that wore a variety of hats. Then, as the year was winding down, FTX evaporated into radioactive, fraudulent fog.

"Crypto exchanges aren't really just exchanges. They're also the retail broker, the prime broker, the custodian, the lender, and in some cases, like FTX, they're the market-maker. That model – because of its conflicts – was just unacceptable to many established markets firms," says Tony Acuña-Rohter, chief executive of EDX Markets, a spot crypto exchange that started trading a year later.

The new venue was backed by two big market-makers – Citadel Securities and Virtu Financial – and two trad-fi wealth and retail heavyweights, in Fidelity and Schwab. The idea was simple: keep the good bits of crypto, get rid of the bad.

It sounds obvious, but Acuña-Rohter says "that doesn't mean it's easy".

Today, EDX is home to an exotic menagerie – from bitcoin, ether and USDC, to bonk, floki and popcat – but takes and manages risk more or less like a conventional exchange-clearing house combo.

In March, EDX Markets International – its global business – launched a Korean won stablecoin perpetual futures contract, in partnership with stablecoin issuer KRWQ and foreign exchange trading technology provider Spark Systems. It aims to replicate the KRW non-deliverable forward (NDF)



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Tony Acuña-Rohter, EDX Markets

market on the blockchain, whereby the contract gives hedge funds and banks access to KRW perpetual futures and is settled in USDC, Circle's dollar stablecoin.

These ventures might appeal to trad-fi firms who want a familiar on-ramp to crypto trading, but it has stumped some of the natives.

"We've basically flipped things round, and it's required a culture shift for some folks. Crypto venues offer you immediate settlement, but at the cost of pre-funding everything. We allow people to trade on credit, but there'll be a financing charge if you want to settle early. The crypto standard might appeal to an individual retail participant, but it makes trading very capital intensive," says Acuña-Rohter.

This simple difference has a lot of knock-on effects. Because trades are executed over the course of the trading day at EDX and only settled once – at noon, Eastern time – participants are given credit limits, with the outstanding population of trades netted and collateralised to mitigate the exposure. The exchange collects initial margin from participants and also runs a default fund to cover any spillover losses from a member firm's collapse (this is currently funded solely by EDX, although Acuña-Rohter says members might be asked to chip in as volumes grow).

Collectively, these financial resources are sized in line with the 'cover two' standard that originated in traditional financial markets – the goal is to be able to absorb the simultaneous failure of the venue's two largest clients.

All of this will sound boring and unremarkable to firms who are used to trading listed products in the trad-fi world. That's the point.

In the crypto market, some of these concepts don't exist, while others work differently. Because trades are settled instantly, each transaction exists in isolation, with no ability to benefit from netting efficiencies – raising the costs for firms that trade frequently, like market-makers.

Market participants can overlay a trad-fi model onto crypto markets by using an independent prime broker, or the prime services belonging to some venues, but this adds a layer of extra complexity and cost, Acuña-Rohter argues. Another alternative would be to avoid exchanges altogether and instead set up bilateral relationships with a selection of market-makers – a firm taking this route would be able to trade on credit but would not be able to net its various bilateral books.

"With us, they wouldn't have to do any of that. They would just natively have limits," he says.



As the central counterparty to all of this trading, EDX has to set a limit for each firm – based on net open positions – and keep an eye on the resulting exposures. That means, for example, that if the value of a user’s positions is in danger of exceeding its collateral, then it can expect to get a phone call.

“We’re pretty old school in this regard. We’re going to call you up. We’re going to say, ‘Hey, you’re approaching your risk limits. What would you like to do? Here are some options: closing up some positions, pre-delivering some obligations, posting more collateral’. And it then becomes a conversation based on facts and circumstances,” says Acuña-Rohter.

The venue’s risk management chops have been tested on a number of occasions, most notably on October 10 last year, when crypto markets suffered a dramatic, self-reinforcing crash – falling prices affected the value of posted collateral, prompting many exchanges to automatically liquidate profitable positions. Bitcoin slid almost 15% during the day, before closing down roughly 7%.

“That’s something we’re quite proud of. Nobody got auto-liquidated. We did *ad hoc* settlements. We allowed people to pre-fund. Some people closed out their positions and

everything worked, because we gave people time to absorb the shock, instead of being fragile and brittle, and transmitting the shock onwards,” says Acuña-Rohter.

He adds: “Because a lot of these exchanges were created for direct retail, they apply risk management that you would for a two-legged person to a large institution, which is not appropriate, because you’re actually adding risk.”

One aspect of crypto market structure that is helpful from a risk perspective is the market’s 24/7 availability, which means users can hedge – or move collateral – at any point during the day or week. Despite this, EDX still uses a two-day value-at-risk measure when calculating margin requirements, but Acuña-Rohter says “that’s probably going to shrink as the markets continue to mature.”

EDX has grown in the almost-three-years since it launched. It hit average daily volumes of roughly \$200 million in December – a new record that capped a year in which total volume grew more or less threefold. Alongside the original backers, users include Robinhood and a number of market-makers and prop trading firms, but no banks.

That could change in 2026. Earlier this month, EDX filed an application with the

\$200 million

EDX Markets’ average daily volumes in December

Office of the Comptroller of the Currency to establish a regulatory-separate national trust bank. Aligning with trad-fi operating models, it would provide digital asset custody, clearing and settlement, and risk management services, with an eye to cater for the digital asset strategies of the large banking institutions.

Acuña-Rohter says EDX is now talking to several banks about joining the exchange. Some are currently preparing for the onboarding process, he claims. It sounds like slow going, though, and Acuña-Rohter is hedging his bets on how many will actually take the plunge this year.

“Once one goes, then game theory suggests the rest will be encouraged to follow. But, honestly, it could be any number from two to 20. It’s hard to forecast,” he says. ■

Editing by Kris Devasabai and Joe Parsons