

Primer: Fidelity Digital Assets

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Research Sources

- [Fidelity Digital Assets Website](#)
- [Fidelity's Bitcoin Investment Thesis](#)
- [2021 Institutional Investor Digital Assets Study](#)
- [Understanding Bitcoin White Paper](#)
- [Consensus 2017: Bits and Blockers: Reflections from our Journey](#)
- [Building a Digital Assets Platform for Institutional & Retail Investors](#)
- [Fidelity's Proof of Work: Our Bitcoin and Blockchain Journey](#)

Summary

Fidelity Digital Assets provides institutional-grade custody and trade execution for institutional investors. The creation of Fidelity Digital Assets was the first step in a long-term vision to create a full-service enterprise-grade platform for digital assets. They see themselves as educators and infrastructure builders.

For years, cryptocurrency early adopters have been talking about the wave of institutional investors that will eventually come. Fidelity Digital Assets believe that institutional involvement will be more like a rising tide and they exist to act as a bridge between curious institutions and the crypto markets. They do this by providing custody solutions that meet institutional investor's security and regulatory expectations and by offering trade execution services that abstract away all the complexity of spot trading digital assets across exchanges and wallets. As a digital asset prime broker they make money by charging a small fee for the services they provide and taking a spread on trades it helps facilitate.

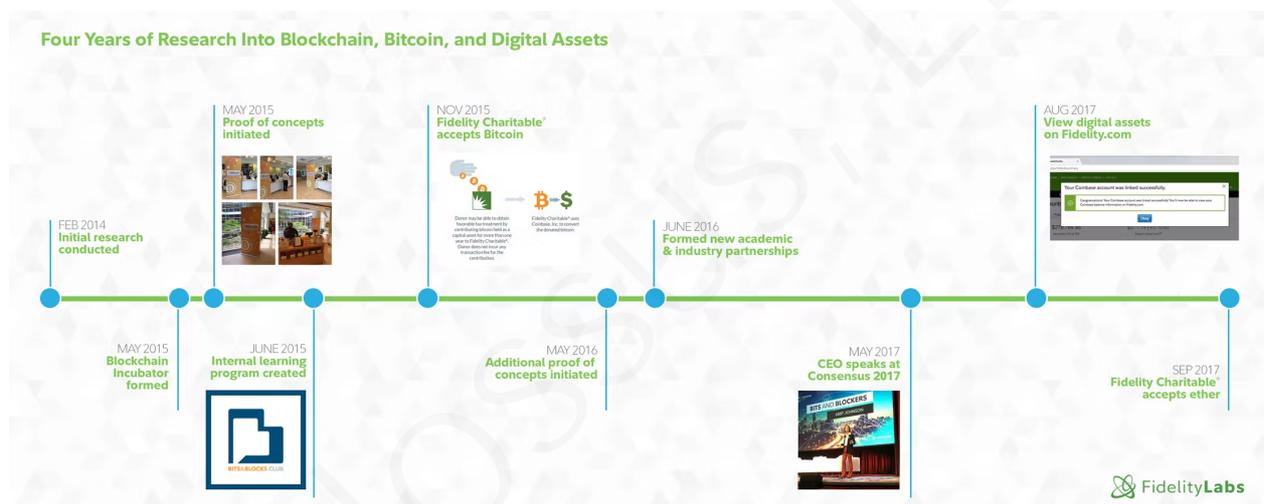
Their biggest asset, the existing relationships they have with institutional investors around the globe, is also their biggest risk. As a financial institution with \$4.2T AUM, 40+ million individual investors, and relationships with 13,500+ financial institutions they must necessarily move slower than a startup or much smaller competitor. It will also be important for Bitcoin, Ethereum, and the other digital assets that they adopt on their platform to continue to exist, grow, and become more Lindy over time.

Company History

- **February 2014:** Abby Johnson and a group of senior leaders at Fidelity were exploring emerging scenarios in financial services. The concept of frictionless capital markets was particularly intriguing to the group and they

began exploring it with existing partners (IDEO and [Institute for the Future](#)).

- **March 2014:** Started mining bitcoin at FCAT as part of their exploration of blockchain technology and began accumulating bitcoin. Eventually, CEO Abby Johnson would have a [bitcoin mining rig in her personal office](#).
- **May 2015:** Established the Fidelity Blockchain Incubator, creating a dedicated team to experiment with blockchain technologies and a number of digital currencies, such as bitcoin, ether and litecoin.
- **May 2015:** Built a protocol to accept bitcoin in the employee cafeterias. The proof of concept was interesting work but ended up with just over one hundred transactions.
- **June 2015:** Created the Bits & Blocks Club as an internal learning program that was open to all Fidelity employees.
- **November 2015:** Introduced bitcoin donations for Fidelity Charitable (grew from [\\$8M in 2017](#) to [\\$331M in 2021](#)).
- **June 2016:** Joined working groups across the industry and academia, with organizations including [Harvard University](#), [University College London](#), [The MIT Media Lab](#), and [IC3](#).
- **May 2017:** Abby Johnson [speaks at Consensus 2017](#), one of the more influential crypto and blockchain conferences.
- **August 2017:** Fidelity adds the ability to view digital assets on [fidelity.com](#).
- **September 2017:** Fidelity Charitable accepts Ethereum.



- **October 2018:** Officially launched Fidelity Digital Assets.
- **November 2019:** New York State Department of Financial Services (DFS) granted a charter under New York Banking Law to Fidelity Digital Assets to operate as a limited liability trust company as part of the state's virtual currency marketplace.
- **December 2019:** Launch Fidelity Digital Assets, Ltd. to [serve European institutional investors](#).
- **July 2020:** Fidelity Investments [acquires](#) a 10.6% stake in the bitcoin mining company [Hut 8](#).
- **July 2020:** [Announced a sub-custody deal](#) with [Kingdom Trust](#) who at the time had \$13B AUM.
- **September 2020:** [Launch Fidelity Digital Funds](#) headed by Peter Jubber.
- **May 2021:** SEC filings show that Fidelity Digital Funds raised \$102M in [its first 9 months](#).
- **June 2021:** [Launched](#) third-party clearing and settlement capabilities with TP ICAP, one of the world's largest inter-dealer brokers. Enables clients to buy bitcoin with USD stored on our platform via TP ICAP's new digital asset platform and to execute sell orders through TP ICAP while their digital assets remain in Fidelity Digital Assets' cold storage, pending a secure, post-trade settlement process.
- **July 2021:** Fidelity Investments Inc. [purchased a 7.4% stake worth approximately \\$20 million](#) in Marathon Digital Holdings, one of the largest bitcoin mining operations in North America, across four broad index-based

funds, Fidelity Extended Market Index Fund (FSMAX), Fidelity Nasdaq Composite Index Fund (FNCFX), Fidelity Total Market Index Fund (FSKAX) and Fidelity Series Total Market Index Fund (FCFMX).

- **July 2021:** Announced that they will be [increasing headcount by 70%](#) by the end of the year and the [possibility of offering yield farming](#) and other products that may involve stablecoins or DeFi.
- **November 2021:** Fidelity Canada [given approval](#) by Canadian regulators to act as the country's first bitcoin custodian.
- **December 2021:** [Granted permanent registration](#) with the UK Financial Conduct Authority for the digital asset custody and trade execution business.
- **December 2021:** [Announced](#) a partnership with [Nexo](#) to act as their custodian and collateral agent.
 - "Nexo said it will broaden its ability to service and enhance its expanding portfolio of assets under management, providing additional custody to its military-grade security infrastructure. Institutional investors who custody their digital assets with Fidelity will now have the added benefit of access to Nexo's products, including its [Prime brokerage platform](#), the company added."
- **February 2022:** [Launched the Fidelity Physical Bitcoin exchange-traded product](#) (FBTC Lau ETP) in Europe. nched FBTC for institutional and professional clients following a Fidelity Digital Assets survey which found 70% of institutional respondents expect to invest in digital assets in the future.

Key People

- **Abby Johnson**
 - President and CEO of Fidelity Investments since 2014.
 - Began at Fidelity in 1988 as an analyst and portfolio manager. She was promoted to President of Fidelity Asset Management in 2001 and then to Head of Retail, Workplace, and Institutional Business in 2005. After being named president in 2012, she became CEO in 2014, and then chairman in 2016.
 - The Johnson family holds approximately 49% of FMR (Fidelity Investments parent company), with Abby holding approximately 24.5% herself.
- **Tom Jessup** ([LinkedIn](#))
 - President of Fidelity Digital Assets.
 - Joined Fidelity as the Head of Corporate Business Development in 2018 and led the team focused on identifying and executing strategic opportunities including acquisitions, divestitures, strategic investments, and partnerships.
 - Prior to joining Fidelity, Tom was the president of [Chain](#) where he was responsible for Chain's commercial strategy including sales, marketing, and strategic business development.
 - Tom spent 17 years at Goldman Sachs, most recently as the global head of Technology Business Development and a founding member of the Principal Strategic Investments (PSI) group.
 - The PSI group focused on investments in exchanges, e-trading platforms, post-trade networks, and other fintech solutions across the fixed-income, currency, commodity, and equity markets.
 - Entered the rabbit hole when the CTO sent him an article about bitcoin and he ended up reading the bitcoin white paper.
 - Originally looked at bitcoin from a macro investment standpoint but as he researched more and realized bitcoin's implications for finance as a whole he began viewing "blockchains as a new operating system for finance".
- **Hadley Stern** ([LinkedIn](#))
 - Currently the COO of [Bloq](#).
 - Spent seventeen years at Fidelity Investments.
 - Most recently led the cryptocurrency and blockchain incubator within the firm's innovation lab, Fidelity Labs.

- Among his accomplishments at Fidelity, Stern was responsible for leading the development of Fidelity's first iPhone App and launching Fidelity on Facebook and Twitter.
- Prior to joining Fidelity in 2001, Stern led the User Experience team at the Boston office of Razorfish.
- **Chris Tyrer** ([LinkedIn](#))
 - Head of Fidelity Digital Assets in Europe.
 - Prior to joining Fidelity served as a managing director at Barclays Investment Bank, leading its digital assets project, which examined the market opportunities for the firm.
 - Also served as Global Head of Commodities Trading for Barclays following a long career in traditional financial markets
- **Chris Kuiper** ([LinkedIn](#))
 - Director of Research at Fidelity Digital Assets.
 - Spent 2 years as a research fellow at the Mercatus Center at GMU.
 - Published research reports frequently on the Fidelity Digital Assets blog.
- **Peter Jubber** ([LinkedIn](#))
 - Managing Director at Fidelity Digital Funds.
 - "Peter is a natural for this role because he combines respect for the specialists and industry technicians with a consumer's 'so what?' realism and a savvy manager's pragmatism." said [Steve Gresham](#), managing principal of Execution Project.
 - "Jubber worked alongside Gresham in 2009 to develop Fidelity's initially slow-off-the-mark ETF business, beginning with filings for active ETFs and a distribution deal with iShares."
 - [[source](#)]
 - Prior to his current role, he spent time as Fidelity's Head of Consulting, Head of Strategy and Planning, and Head of Asset Management Strategy and Business Development.
 - Before that he spent time at JP Morgan, Renaissance Strategy, Adventis, and IBM.
 - Credited with helping Fidelity catch up in the ETF business after a slow start.
 - Fidelity Digital Funds manages the Wise Origin Bitcoin Index Fund I.
 - Passively-managed vehicle that Fidelity sells to qualified investors.
 - Raised \$102,350,437 from 83 investors according to [SEC filings](#).

Core Mechanics and Business Model

- **Value Proposition**
 - Fidelity Digital Assets provides three services to institutional investors that want to invest in digital assets.
 - Institutional-grade Custody
 - This is what Fidelity considers the base of their product pyramid, without world-class security and custody they can't provide any other services.
 - Provide a secure, compliant, and institutional grade storage solution for Bitcoin, Ethereum, and other digital assets. This consists of vaulted cold storage and multi-level physical and cyber controls.
 - Security protocols developed using Fidelity's existing security principles and best practices combined with internal and external digital asset experts.
 - In an interview with Raoul Paul, Tom Jessop said "Fidelity has a bigger cybersecurity organization than most crypto companies have employees."
 - Trade Execution

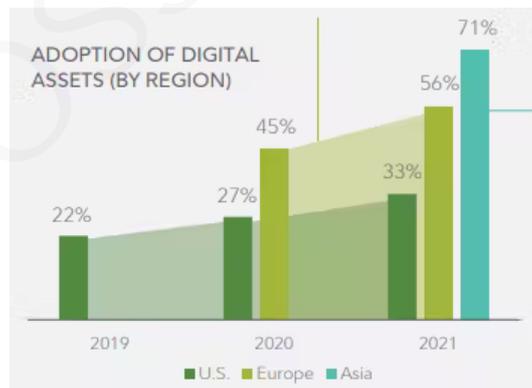
- Fidelity Digital Assets provides access to trade execution through their internal [crossing engine](#) and [smart order router](#).
- In June 2021 they launched third-party clearing and settlement capabilities with [TP ICAP](#).
 - The new trading model enables clients to buy bitcoin with USD stored with Fidelity via TP ICAP's digital asset platform and to execute sell orders through TP ICAP while digital assets remain in Fidelity Digital Assets' cold storage (while waiting for the post-trade settlement process).
- Dedicated Client Services
 - Given the early stage of most institutions involvement with digital assets, Fidelity Digital Assets emphasizes client support.
 - They provide white glove services and onboarding.
 - Clients have access to a dedicated team of specialists for any problems that arise and to share Fidelity's extensive research.
- In addition to the above, in December 2020, they [announced a new offering](#) to allow clients to pledge bitcoin as collateral in a transaction in partnership with BlockFi.
- **What problem does it solve?**
 - Connecting older, slower moving institutions with the rapidly evolving and growing world of digital assets.
 - Right now (less as time marches on) there exists a discontinuity between institutional investors desire to invest in digital assets and their ability to do so – Fidelity Digital Assets abstracts away the complexity, provides compliance and regulatory certainty, and displays it all in a simplified user interface that is already familiar.
 - Fidelity Digital Assets' goal is for their systems/processes and blockchain technology to mature enough that most people won't be thinking about it in the same way that most equities traders don't think about the DTCC when they make a trade.
 - Liquidity and market access
 - If custody is the base level of their product pyramid, then providing liquidity and market access to institutions in a form factor that they're used to is the second level.
 - Leaving assets on multiple exchanges to trade is a foreign concept to many of their clients.
 - They're used to using an [EMS](#), [OMS](#), or other trading screen to view all markets in one place.
 - They aggregate liquidity on the backend. Rather than acting as a market maker for their clients, they're acting more as an agent. The client gets prices from multiple sources, picks the best one, and Fidelity helps with settlement.
- **Who does it solve that problem for?**
 - They started out serving hedge funds, crypto hedge funds, and single family offices. Entities that have more freedom with asset allocation.
 - However, more recently, Fidelity Digital Assets counts RIAs, multi-family offices, several corporations, and pension funds as clients.

CURRENT ADOPTION & CHANNELS TO EXPOSURE (INVESTOR SEGMENTS)



Source: *The Institutional Investor Digital Assets Study* [p.11]

- They've received interest from a utility interested in using excess generated energy to mine bitcoin.
- Most clients are confidential, however, in a February 2021 interview with Michael Saylor, Tom Jessop said that SkyBridge Capital, Galaxy Digital, Kingdom Trust, and BlockFi were all clients.
- Based on their 2021 institutional investor digital asset study there's still significant interest for more institutions to allocate capital to digital assets.
 - 52% of respondents are already invested in digital assets
 - 84% of European HNW individuals were already invested

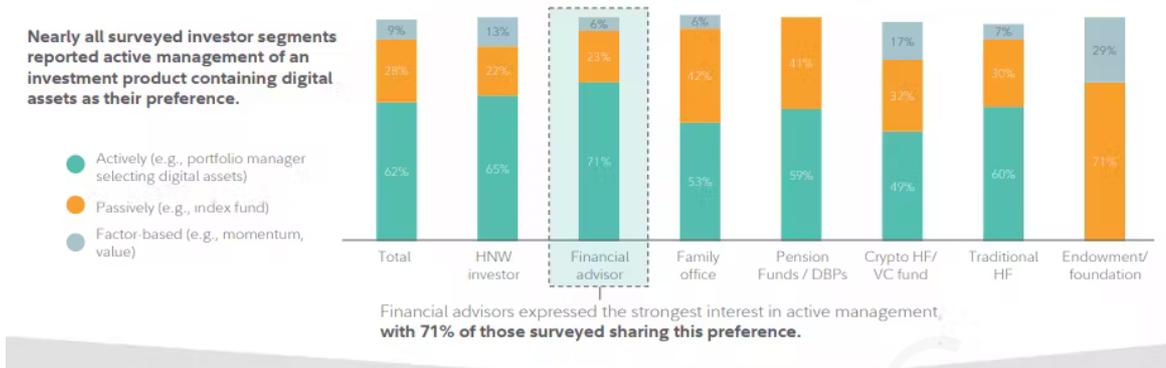


Source: *The Institutional Investor Digital Assets Study*

- 20% increase in US-based financial advisors invested in digital assets
- 70% of all investors surveyed had a neutral-to-positive perception of digital assets
 - 79% of US family offices had a neutral-to-positive perception
- Nearly 90% of investors said they found digital assets appealing
 - Mostly due to their high potential upside and outsized returns
 - Conversely, 54% said that price volatility was the biggest barrier to investment
 - 44% said the lack of fundamentals to gauge the appropriate value was their biggest barrier

- 84% of US and European investors said that they would be interested in institutional investment products (such as an ETF)

DIGITAL ASSET INVESTMENT PRODUCTS (INVESTOR SEGMENTS)



Source: *The Institutional Investor Digital Assets Study*

● Distribution

- Fidelity Digital Assets first customers were Fidelity alumni who had moved on to other institutions.
 - They were patient enough to put up with the early onboarding process and help with growing pains.
- Fidelity Investments existing relationships with many institutional investors (13,500 financial institutions).
- Marketing
 - Fidelity Digital Assets have a regularly updated blog where they publish extensive research reports and market updates.
 - Conduct an annual study of institutional investors interest in digital assets.
 - Surveyed 1,100 professionals globally from a variety of different firms.

● Economics

- Revenue stream
 - Fidelity Digital Assets is essentially acting a primer brokerage for institutions investing in digital assets.
 - As such, they act as an agent between the buyer and seller, aggregating prices from multiple sources, and then facilitating the trade by ensuring the settlement process takes place.
 - Fidelity Digital Assets makes money by charging a fee for facilitating trades through its platform.
- Cost structure
 - Employees
 - Competition for engineers and anyone with several years of experience building in the crypto space is extremely fierce right now.
 - If Fidelity wants world class experts building their cold storage solutions and back end infrastructure, they will need to pay a salary premium.
 - They're competing with companies and startups that have the ability to be much more agile and don't have the stigma of a large financial institution.
 - In July 2021, they announced that they were going to be hiring ~100 new employees (a 70% increase).
 - Adding employees in Dublin, Boston, and Salt Lake City.
 - Focused on adding additional digital assets to the platform.

Key Metrics

- As of August 2021, Fidelity Digital Assets had 100+ institutional clients, according to this article.

Donor contributions of cryptocurrency grew nearly **twelfefold** from 2020.



Year-over-year growth in cryptocurrency contributions



Source: *The Fidelity Charitable 2022 Giving Report*
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Source: *The Fidelity Charitable 2022 Giving Report*

Useful Resources

Title	Type	What You Will Learn (140 Characters)	URL (Must be https://)
Abby Johnson, Vipin Mayar, Tom Jessop - Future of Finance	Colossus	Trends in asset management, AI and blockchain, and leadership.	https://www.joincolossus.com/episodes/34327078/johnson-future-of-finance
The View on Bitcoin From Inside Fidelity Digital Assets, feat. Ria Bhutoria	Podcast	Ria talks about how one of the most important institutional players in the space has viewed the evolution of bitcoin over the past year.	https://podcasts.apple.com/us/podcast/view-on-bitcoin-from-inside-fidelity-digital-assets/id1438693620?i=1000503512129
Consensus 2017: Bits and Blockers: Reflections from our Journey	Video	Listen to Fidelity CEO Abby Johnson describe Fidelity's journey into blockchain technology and the challenges institutions still face at Consensus 2017.	https://www.youtube.com/watch?v=oXwdJo_gEEA&list=PLuyiTtUH4K64B4W61jpsa_dgaWnu8hK5N&index=2
Bitcoin for Corporations Strategic Vendor: Fidelity Digital Assets	Video	Christine Sandler, Head of Sales & Marketing, at Fidelity Digital Assets talks about their history and how they think about Bitcoin, innovation, and building for institutions.	https://www.youtube.com/watch?v=Szorpt4GFI
Fidelity Digital Assets Presentation with Tom Jessop	Video	Michael Saylor interviews Tom Jessop, president of FDA, about Fidelity's products, their operational model, and the future of digital assets for corporations.	https://www.youtube.com/watch?v=ff7YmLKUIHc
Building a Digital Assets Platform for Institutional & Retail Investors (w/ Raoul Pal & Tom Jessop)	Video	Tom Jessop talks about Fidelity's effort to build a digital assets platform for institutional and retail investors.	https://www.youtube.com/watch?v=0wgrjzNX2DI
Bitcoin's Growing Role In Portfolios Fidelity Digital Assets' Chris Tyrer	Video	Chris Tyrer, head of Fidelity Digital Assets Europe about the role digital assets play in investment strategies today and in the future.	https://www.youtube.com/watch?v=MYzEakD3BqE

Fidelity's Abigail Johnson on Managing Disruption...and Bitcoin	Video	Abigail Johnson, CEO of Fidelity Investments, on managing disruption through innovation, what's next for the financial services giant, and why Bitcoin matters (and why it doesn't).	https://www.barrons.com/video/fidelity-abigail-johnson-on-managing-disruption-and-bitcoin/7C9967F5-E701-48C0-8A1D-9B8D537D5AEC.html
Bitcoin Investment Thesis	Article	Fidelity's investment thesis for Bitcoin.	https://www.fidelitydigitalassets.com/bin-public/060_www_fidelity_com/documents/FDAS/bitinvthessisstoreofvalue.pdf
Fidelity's Proof of Work: Our Bitcoin and Blockchain Journey	Article	Hadley Stern, founding president of Fidelity Digital Assets talks about their exploration of blockchain and Fidelity's early experiments.	https://www.linkedin.com/pulse/fidelitys-proof-work-our-bitcoin-blockchain-journey-hadley-stern/
Why Corporate Treasurers May Consider Bitcoin	Article	A look at the risks corporate treasurers face as a result of the pandemic and historical fiscal and monetary expansion, and why they may consider a balance sheet allocation to bitcoin.	https://www.fidelitydigitalassets.com/articles/corporate-treasurer-bitcoin
The Institutional Investor Digital Assets Study	Article	Annual study of digital asset interest across the industry.	https://www.fidelitydigitalassets.com/bin-public/060_www_fidelity_com/documents/FDAS/2021-digital-asset-study.pdf
Understanding Bitcoin White Paper	Article	Jurrien Timmer, Director of Global Macro at Fidelity, assesses bitcoin as a form of digital gold and looks at its place in the average investors portfolio.	https://institutional.fidelity.com/app/literature/white-paper/9901337/understanding-bitcoin.html