



A comparison of B2C2's OTC pricing to exchange spreads during extreme market volatility

Bid-offer spreads widened dramatically in March 2020, one of the most volatile months in the history of financial markets—both conventional and digital. In this short paper, we show that the spreads on B2C2's OTC platform outperformed their equivalent on major spot exchanges, cementing the firm's reputation as the most reliable liquidity provider in all market conditions.

Thursday 12th March and Friday 13th March witnessed violent moves in crypto prices, with a 50% bitcoin drawdown over the 2-day period, the largest since 2013. Bid-offer spreads widened as uncertainty with respect to prices grew and liquidity providers receded from the markets.

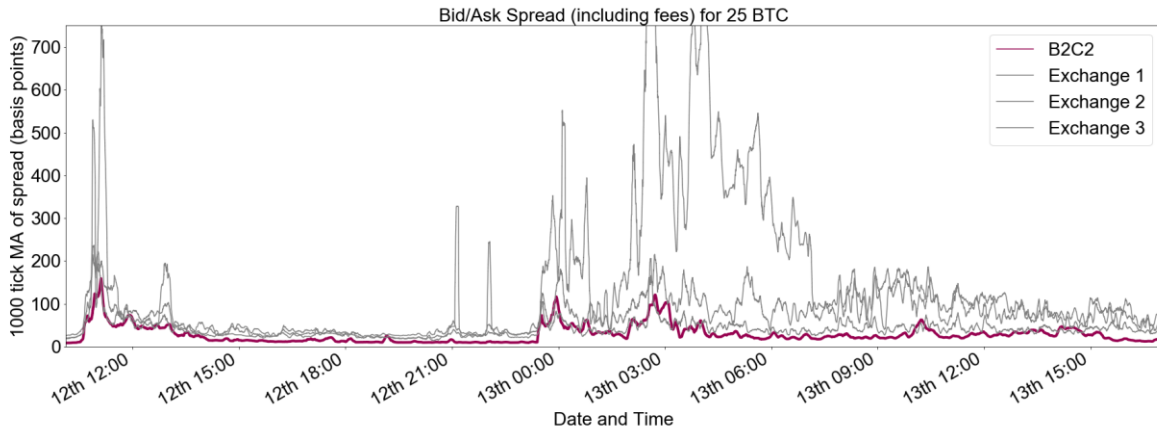
Methodology

Spreads did not increase by the same magnitude on all venues. The spreads shown to a representative OTC client of B2C2 are compared with the spreads available on three major, high-volume spot exchanges that cater to institutions. The representative B2C2 client traded just under \$100mm in a 30-day period, and \$20mm during the period analysed. Conservatively, the \$100mm+ volume bucket was used to compute exchange fee tiers.

25 BTC

Take the bid-offer spread to trade in a size of 25 BTC, approximately \$100,000-\$200,000 during the period. On Thursday 12th, when the market fell just before 10:30am London time, the bid-offer spread on our benchmark exchanges jumped to 200 basis points. One key exchange showed spreads in excess of 500 basis points. Put differently, that's a 5% difference in the price where an investor could buy on that exchange and the price where an investor could sell. On Friday, the exchange bid-offer spread breached 10% on one of the venues!



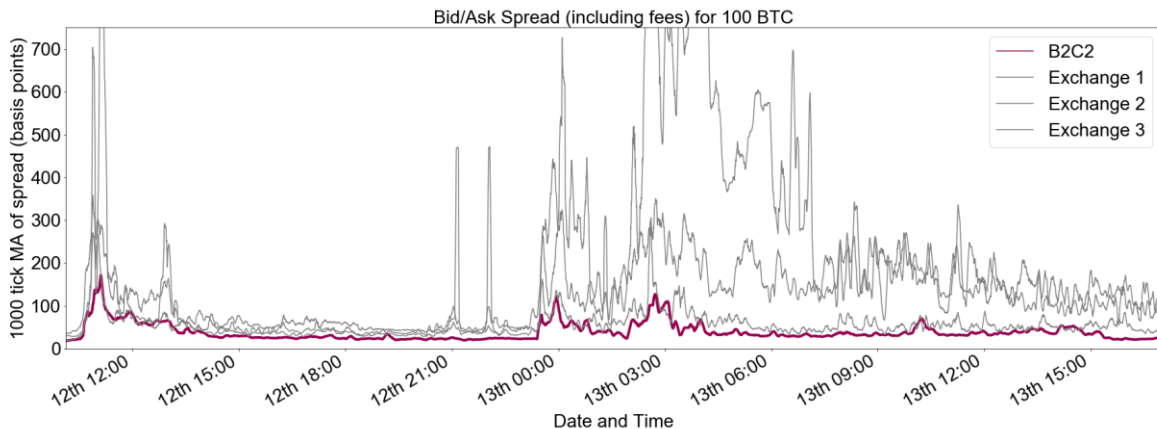


Per the graph above, B2C2’s OTC platform was able to maintain tight spreads and stream attractive prices throughout the entire period. While B2C2 did widen in the face of high uncertainty, prices remained tighter than every other exchange for the vast majority of that 48 hour period.

Specifically, for a 25 BTC trade, B2C2 showed a tighter spread than **any** of the three exchanges over 75% of the time, and beat exchanges #2 and #3 over 90% of the time.

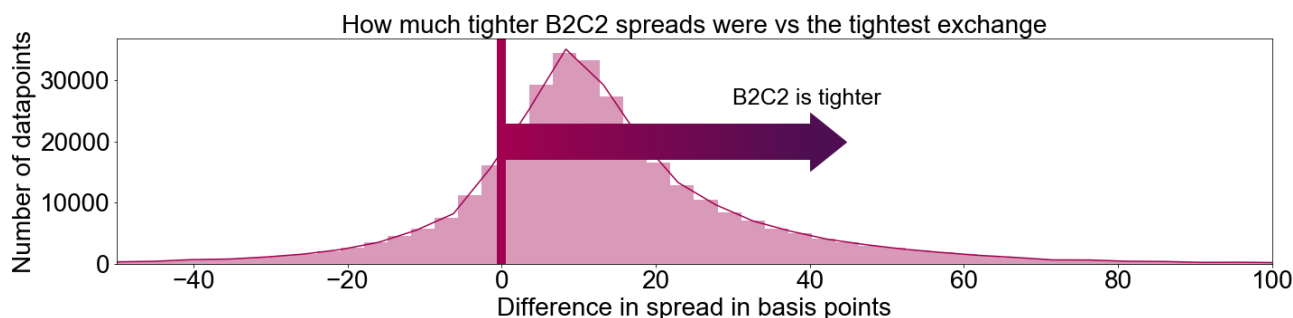
100 BTC

For a trader looking to execute a trade of size 100 BTC, the difference is even more palpable. Here, B2C2 was tighter than **all** top three exchanges over 80% of the time.



Not only was B2C2’s pricing tighter, but it was better by a considerable margin. To see this, we analyse the distribution of differences in spread between 10:00am on the 12th and 5:00pm on the 13th. At any given time, one of the exchanges is showing a narrower bid-offer spread than the other two. We take this “best-of-three” exchange spread and subtract B2C2’s OTC spread at the

time. A positive number on the histogram below indicates that B2C2 was tighter than the best exchange, and by how much.



Positive numbers on the x-axis show by what margin B2C2 was tighter, the y-axis shows how often this difference occurred.

The graph above shows that in the vast majority of cases, B2C2 was the best option for investors looking to execute 100 BTC. At times, B2C2 was over 100 basis points better than the next best exchange, equivalent to a saving of \$2,500 on a \$500,000 transaction.

The difference would be starker for a trader connected to only one or two of the benchmark exchanges, a reminder that trading with a professional electronic OTC desk comes with effective liquidity aggregation on a single connection and without the need to maintain balances on multiple exchanges.

Fair-weather friends

A number of clients have since told us that other OTC desks not only widened spreads considerably, but that some actually **turned their platforms off**. Walking away from the market during periods of volatility is an extreme measure that hurts clients when they need liquidity the most.

At B2C2, we have spent the past four years honing our OTC systems for 24/7 availability: the emphasis on reliability gives us confidence in our platform at all times such that hitting the “panic” button couldn’t be further from our minds.

Fortunes are made and lost in such critical times. What would be the purpose of being there for our clients in quiet markets if we could not hold steady when it matters most? B2C2 was the only principal liquidity provider with accurate, executable two-way pricing throughout this violent event and will be there for you again the next time around.

B2C2 is the leading OTC liquidity provider of the cryptocurrency market. Chris Dick is a Quantitative Trader at B2C2. See b2c2.com for more information.

