

diffusetap
Virtual Event Series

Why Do Fintechs Need a Micro PE to Launch?

Guest Speaker:



Gary Sheynkman
Venture Partner
Further Ventures

Hosts:



Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse



DiffuseTap: Why Do Fintechs Need a Micro PE to Launch?

Last time on DiffuseTap, Gary Sheynkman, Venture Partner at Further Ventures, talked to us about why regulated infrastructure is critical for institutional investors, the regulatory burdens of creating compliant crypto infrastructure, and the long overdue need to replace outdated systems in finance.

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DiffuseTap: Where Crypto and Technology Shape Finance

DiffuseTap takes you to the heart of finance and digital assets. See how changes in crypto and tech are transforming the industry, with insights from top leaders and experts.

Meet the Speaker



GARY SHEYNKMAN is a Venture Partner at [Further Ventures](#), an investment firm in Abu Dhabi. With decades of experience in VC and the emerging markets startup accelerator space, Gary has invested in international multi-stage opportunities through [Leyden.vc](#), supports early-stage founders with [AngelSpark](#), and played a pivotal role in launching [Techstars Dubai](#).

LinkedIn: [@sheynkman](#)

About Diffuse®

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KENNY ESTES: The speaker for today is Mr. Gary Sheynkman. Gary, do you want to tell the folks a little bit about your background and what you are up to over at Further Ventures?

GARY SHEYNKMAN: Hello from New York, folks. I'm visiting the East Coast this week, but I'll be back at home base next week. My name is Gary. I am one of the partners at a firm called Further Ventures. You can find us at further.vc. We are about a \$200 million vehicle backed by MasterCard and the sovereign wealth fund of Abu Dhabi, or at least one of them.

We operate two businesses. One is a very traditional venture capital firm. We lead Series A rounds and primarily focus on capital markets infrastructure, both FinTech and crypto companies, all of which are regulated.

The other side of the business is a studio or incubator, where we originate and grow companies from napkin to large enterprises over the span of years. These tend to be within our own umbrella, where we operate broker-dealers, custodial insurance, and other infrastructure services. Yeah, that's the very quick overview. We can go from there.

KENNY: Okay, let's go from there. What is your thesis regarding crypto investments? What are you actually looking for? What's the sweet spot for you?

GARY: For the average person, I'd say just dollar-cost averaging into Ethereum and Bitcoin every day and avoid constantly checking the market. But the way our firm looks at this is by finding credible use cases.

What is different, at least in our part of the world, is that there is a greater need for much of this infrastructure. In the U.S. and Europe, peer-to-peer payments work fine, and you have a stable currency, so payment and settlement issues aren't as significant.

However, in the developing world, it's different. There is also a lot of regulatory uncertainty, and many global finance entities, including hedge funds and derivative products, have moved to our part of the world. We saw an opportunity to invest as a traditional VC but also to support early-stage projects that launch regulated entities.

For example, launching a qualified custodian or a risk underwriter or standing up a broker from scratch requires significant compliance infrastructure and regulatory capital on day one. This makes it untenable for milestone-based venture funding, which high-growth startups are used to. There has been a vacuum in these services, and that's what we have been addressing over the past two and a half years.

KENNY: So, we're talking about actual financial infrastructure, which is heavily regulated. What are some examples of portfolios or things that fit into that thesis?



GARY: For instance, ETF providers in the U.S. need to use qualified custodians to manage private keys. The vast majority use Coinbase, which is the 800-pound gorilla, but you have probably also heard of Anchorage and BitGo as well. This applies globally, where local regulators want similar protections for investors. That is why localized, regulated infrastructure is important for every market.

Then, you have settlements and derivative products. You might have a product underwritten in Singapore but settled in UAE dirhams, with investors from the UK, for example. Or someone might want to offer a derivative product to smooth out slashing events on Ethereum.

These products are not common in the U.S. but are starting to gain traction elsewhere. Markets with thoughtful regulators allow sophisticated participants to interact more freely. Keep in mind, though, that these opportunities are typically not available to retail investors.

KENNY: That makes sense. Institutions are, well, with institutions there is a definite moat to get into that. From a high level, what is the difference between investing in a crypto project versus a more traditional startup? With a startup bet, you just chuck in the check and wait 10 years. And then hopefully, you get 100,000 times your money back. Whereas with crypto, you could get exit liquidity in six months, or three months in some cases.

GARY: So, in the real world, in the rational world—which, of course, finance isn't—but in the rational world, there shouldn't be any difference at all. In theory, if you're deploying capital toward some future value that capital will create, it should not matter whether that adoption happens on a distributed database or not.

But with crypto, we have created this bizarre historical anomaly where, for a long time, the risk was entirely borne by private markets. You could securitize that risk out to public markets later. Now, with crypto, we are securitizing the risk first, before there is even a product, let alone any actual adoption.

The only real use case for crypto today is stablecoins, for payments, liquidity provision, and trading pairs—that's the only product-market fit at any meaningful scale. Everything else is highly experimental. But the valuations of some of these projects are comparable to private market valuations of database-style companies.

KENNY: So, you're saying the only use case with significant traction is payments. What about lending? What about DeFi?

GARY: That is still tied to stablecoins. The meaningful volume comes from extracting real-world utility. This leads to more interesting applications, especially with deep-end projects. These involve real-world



costs for infrastructure and real-world usage and revenue potential. There is an entire network where you can create incentives using a native token or Layer 2.

But for massive adoption—take the streets of [Istanbul](#), for example. People used to exchange dollars for lira, but now Tether usage is the second-largest in the world. Their currency collapsed, so people turned to stablecoins. It is economic behavior driving the adoption, not the convenience of saving 30 cents and 20 minutes on a peer-to-peer payment.

KENNY: Okay, that makes sense. Let's talk about other trends. We recently had a speaker on data availability and app chains. App chains are very hot right now, with individual applications having their own chain. Do you think this is valuable, or where do you see it fitting into the larger ecosystem?

GARY: It depends. What I don't like are business model-specific chains. For example, you can have an app chain that improves performance—maybe transaction throughput or consensus mechanisms—like in the [Cosmos ecosystem](#), which enhances the interoperability of private node operators. There's potential on the deep-end side there.

But where it doesn't work is with specific asset chains, like a tokenization chain or a chain just for real-world assets. Layer 1s should be for consensus and settlements, while Layer 2s handle computation and high-performance tasks.

You can build whatever business logic you need on top of that. We don't need specific heuristics. In other forms of computing, you have your generic compute infrastructure, your database design, and then you build the ERP that drives your business logic. I don't see that changing here.

KENNY: Okay, that kind of makes sense. So talking about the application layer, I'd imagine you see Base as kind of an exception to that, right? Because it's not really just for that application. It just happens to be another full-functionality chain, a layer two.

GARY: Sorry, can you repeat that? Base?

KENNY: Coinbase's token and chain, Base. Where do you think that falls? Because it's pretty hot right now.

GARY: I think it's a very good example. They are using economic security and providing better functionality. Coinbase is almost like [Google](#). Google launches [balloons](#) to beam the internet down



because every new internet user benefits Google. Same with Amazon. I think if you're using crypto broadly and transacting, you're probably benefiting Coinbase in some way.

Base is a great example, and I think we will see more layer twos inheriting financial security without needing to bootstrap billions for economic security. Like Sony with Chainlink—they don't need to create new security to achieve better tracking in their games. It's about delivering immutability and functionality to their community without the unnecessary burden of building from scratch.

KENNY: But does that raise the question of whether there is an actual utility in Sony having its own chain, or could they just use existing infrastructure with an app on top of it?

GARY: You get two layers of abstraction. If you were doing this on Solana, it might have to be a mono app, but in the EVM ecosystem, it makes sense to do it as an L2 that settles into Ethereum for better performance. In the FinTech and DeFi space, it's essential to focus on the financial product at the end—is it yield?

How well is it underwritten? And for other crypto use cases, it's about the actual end product humans will use, whether it's an app on a phone or a point-of-sale system. This is why the conversation is long-term; in 10-15 years, we won't even talk about it, just like we don't debate new SQL releases anymore.

KENNY: Right, nobody cares. That's fair. Chris has a question about your thesis—how much of what you're doing is apps, and how much is infrastructure? There is a gray line in there. Also, since this talk is about underwriting, what key metrics do you look at for a network or app you think will be successful?

GARY:GARY: I will try to answer both, hopefully in the right order. In terms of what we focus on, we incubate regulated service providers. For example, we incubate a custodian that is a licensed service provider. Now, discussions about whether we use HSMs or MPC vendors for cold versus hot storage can be interesting from a philosophical perspective, but they're tangential to the core business, which is providing insured custody for institutional clients. The same goes for our other incubations.

Our main strength as an organization is in regulatory affairs. We usually deploy software that we believe works and drives volume toward regulated infrastructure, but we don't necessarily engage deeply with the underlying technology.

For example, we led a Series A for Kemet, which provides an interface for derivative trading. If you are a firm that is active in derivatives or other exchanges, you are likely using certain vendors for order management and building out your trading algorithms. That is not something we would take on as an organization.



Another good example is [TwinStake](#). We're not experts in running node infrastructure, so we leave that to our custodian and broker-dealer providers, who bundle staking services and offer staking infrastructure to their clients. We saw value in making investments into these technology products, which we can then offer to the regulated side of the business.

And just to wrap up and address the underwriting question, our view is that unless you have the ability to underwrite or market-make financial services products right from the start, it's better to focus on software.

For instance, if we were launching an insurance company, we would be building the operations from scratch, handling all the regulatory affairs to get compliance, and sourcing regulatory capital to establish a balance sheet to underwrite risk. We would also need to secure our first few clients, essentially creating a captive product to "dog food" or test it.

The challenge with launching fully regulated entities, much like in traditional finance, is that there is no beta testing—once money is involved, everything has to work perfectly. Trust is critical. Without significant volume on your platform, attracting a new institutional client is extremely difficult.

This is why, in our space, the two big firms we aim to catch up with are firms like [Galaxy](#). They operate both asset management and venture businesses, and they provide a lot of client feedback since they are also users of many of these companies through their trading and market-making operations.

Additionally, if Galaxy needs to create liquidity within a protocol, they have the balance sheet to bootstrap that from scratch, something many firms lack. Without that kind of balance sheet, launching a regulated product becomes prohibitively difficult.

In every instance I've seen, companies either crash or get consumed due to the immense regulatory and financial burdens. You are looking at a process that takes a year and a half or more, with millions of dollars in regulatory capital locked up, a team burning through money, and all the while, you can't even market the product until you get regulatory approval. That is the tough reality of launching regulated crypto products.

KENNY: Exactly. We are kind of working on an exchange right now, so we know this pain very well. But once you get through that, it creates a moat that is very good for the incumbents, and that you see the exact same thing transpiring in traditional finances as you're seeing in crypto.

GARY: Yeah, once you get through the regulatory hurdles, the margins tend to be pretty good. What we're seeing is that there is an endless amount of outdated infrastructure, old garbage that still needs to be replaced.

I see a lot of this as replacing systems from the 1980s and 1990s. For example, if you've ever looked at a SWIFT MT301 or MT9109 form, you will notice that we are still using things that look like they were



designed 50 years ago. A significant portion of the infrastructure that moves money around is outdated, so I think there's a lot of room for growth and some really cool innovations to be built.

KENNY: Alright, rapid-fire: real-world assets. Where are we, and where do you see them going?

GARY: I think real physical assets, like buildings or hotels, are completely uninteresting. We are not creating anything new by securitizing them—it's basically the same work an investment banker or merchant banker would do when selling those assets.

But when it comes to real-world assets in the form of tokenizing financial products, that's where things get interesting. If you think of treasuries as RWAs, for example, there is potential for some innovative yield products. The ability to combine those into dynamic, blended yield tokens or index portfolios that just live in your wallet is where I see the market heading. That is going to be pretty cool.



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Chok Ooi

Senior Partner at AgilityIO

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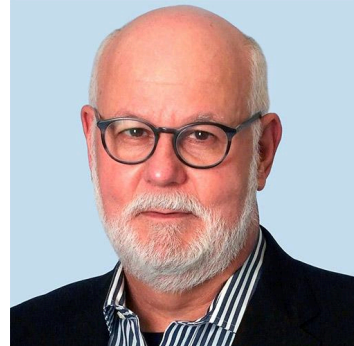


Stevie Cline

Managing Director at Vol. 1 Ventures

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Pat Daugherty

Partner at Foley & Lardner LLP

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