

Kraken (Payward, Inc.) — Investment Memorandum

Company Overview

Kraken (legal entity: **Payward, Inc.**) is a long-standing, U.S.-based crypto exchange and financial services platform that has steadily expanded beyond spot crypto trading into a broader, multi-asset and multi-venue market structure business. In the last ~12 months, Kraken has been explicit about a strategic arc: move from “crypto exchange” → “always-on, global markets + payments rails,” combining spot, derivatives, equities access, tokenization, and consumer payments into a single interface and balance sheet.

Two developments matter for how we underwrite Kraken today: (1) **credible march toward public-market readiness** (including a reported confidential IPO filing and stated intent to list) and (2) **product adjacency expansion** (U.S. equities/ETFs trading; a P2P payments app; and accelerating U.S. derivatives infrastructure through acquisition).

Investment Highlights

1. Structural Expansion Beyond Crypto — A Multi-Asset Platform in Formation

Kraken is no longer underwriting itself as a crypto exchange. The more accurate framing today is that Kraken is building a **24/7 global markets platform** that unifies digital assets, derivatives, tokenized traditional assets, and payments infrastructure under one account system.

The recent launches and acquisitions — including U.S. equities trading, tokenized exposure initiatives, the Krak peer-to-peer payments app, and the acquisition of a CFTC-regulated derivatives venue — indicate a deliberate effort to evolve into a hybrid between:

- A global crypto exchange

- A retail brokerage
- A derivatives venue
- A fintech payments network

That convergence thesis matters because spot crypto trading alone is cyclical and commoditized. A unified account structure across asset classes increases customer lifetime value, collateral efficiency, and frequency of engagement. If executed correctly, Kraken becomes less dependent on crypto volatility cycles and more dependent on structural financial behavior.

2. IPO Pathway and Institutional Signaling

Reuters has reported that Kraken confidentially filed for a U.S. IPO. Whether timing lands in 2026 or later, the operational implications are clear: governance hardening, financial discipline, regulatory alignment, and audit infrastructure consistent with public markets.

This is strategically important for two reasons:

First, IPO readiness typically enforces operational maturity. Exchanges that survive into public markets tend to exhibit more disciplined risk management and reporting than privately-run competitors.

Second, IPO optionality introduces valuation re-rating potential. Public comparables in financial infrastructure and exchanges are often valued on revenue durability and regulatory defensibility — not just transaction growth.

Kraken's positioning appears aimed at transitioning from "crypto-native exchange multiple" toward "diversified financial infrastructure multiple."

3. Derivatives as Margin Engine

Derivatives are the structural margin driver in exchange businesses. Spot markets compress; derivatives sustain economics.

Kraken's acquisition of Small Exchange (a CFTC-regulated Designated Contract Market) is not incremental — it represents a strategic U.S. regulatory foothold. Owning regulated derivatives infrastructure in the U.S. is materially different from offering offshore perpetuals.

If Kraken successfully integrates U.S.-native futures and derivatives under CFTC supervision, it creates:

- Regulatory durability
- Collateral efficiency across products
- Institutional onboarding leverage
- More predictable revenue streams

The long-term upside case for Kraken depends more on derivatives scale than on spot volume growth.

4. Payments (Krak) Increases Frequency and Reduces Volatility Exposure

The launch of the Krak P2P payments app is strategically underappreciated.

Trading platforms are episodic — payments are habitual.

If Kraken successfully layers fiat + crypto transfers, cards, and potentially lending products on top of its wallet infrastructure, it moves from event-driven revenue (trading days) to daily engagement (money movement).

Payments increase:

- Account stickiness
- Cross-sell opportunities
- Balance sheet optionality
- Data depth for underwriting future financial services

The structural upside is that payments can stabilize revenue cyclicality inherent in crypto trading.

5. Trust & Transparency as a Competitive Wedge

In a post-FTX landscape, centralized exchange trust is a real underwriting variable.

Kraken has leaned into transparency initiatives such as Proof of Reserves to differentiate itself. While Proof of Reserves is not a perfect system-wide solution,

Kraken's willingness to adopt cryptographic accountability mechanisms strengthens its positioning relative to opaque competitors.

Trust compounds slowly but erodes quickly. Kraken's conservative brand posture may limit short-term aggressiveness but increases long-term survival probability.

For long-duration capital, survival probability is alpha.

6. Regulatory Convergence Advantage

Most global exchanges are structurally bifurcated: offshore volume centers paired with fragmented regulatory strategies.

Kraken appears to be pursuing a convergence model — acquiring regulated infrastructure (DCM), expanding U.S. equities access, and layering compliance across product categories.

If regulatory clarity improves in the U.S., platforms that already invested in compliant infrastructure are positioned to benefit disproportionately.

This creates asymmetric upside relative to exchanges forced to retrofit compliance into existing offshore-heavy models.

7. Consolidation Optionality

Kraken's valuation history and reported IPO trajectory suggest it could function as either:

- A standalone public market exchange competitor
- A consolidation platform for fragmented crypto venues
- Or a takeover target in a broader financial convergence scenario

As crypto and traditional markets increasingly overlap, ownership of a globally distributed, regulated, multi-asset exchange becomes strategically valuable.

Kraken sits in a narrowing group of exchanges with:

- Brand durability
- Institutional legitimacy
- Regulatory traction

- Multi-product ambition

That scarcity increases strategic value.

8. Financial Infrastructure Flywheel

If Kraken succeeds in unifying:

- Spot
- Futures
- Tokenized assets
- Payments
- Collateral netting

It builds a structural flywheel:

More products → more capital concentration → more liquidity → tighter spreads → more institutional adoption → higher derivatives flow → stronger margins.

The end-state vision resembles a 24/7 hybrid between Nasdaq, CME, and PayPal — but crypto-native.

That is the upside case.

Bottom Line on Investment Highlights

Kraken is not a bet on crypto prices.

It is a bet on market structure convergence.

The company is positioning itself to sit at the center of:

- Digital asset liquidity
- Regulated derivatives
- Tokenized equity access
- Cross-border payments

The strategic shift from “exchange” to “financial infrastructure layer” is the core underwriting thesis.

The Deal

- **Security:** Secondary: Series A Preferred Shares
- **Valuation / Price:** 38PPS
- **Vehicle:** 2nd Layer SPV

Context to diligence against: Reuters reported Kraken was valued at **\$20B** in a recent capital raise, and that Kraken confidentially filed for a U.S. IPO and has discussed timing (including a target window referenced by Reuters).

Value Proposition

A. Market structure: building a unified venue, not a single product

Kraken's strategy increasingly resembles a market-structure play more than a single vertical product. The throughline is reducing fragmentation: unify collateral, unify venues, unify regulatory frameworks where possible, and let the customer trade what they want (crypto, futures, equities exposure) with a coherent risk engine and wallet.

This matters because the next wave of scale in crypto doesn't come from "more tokens listed"—it comes from becoming the **default financial account** for a globally distributed user base: trade, save, spend, hedge, and move value across borders.

B. Distribution: consumer mindshare + institutional-grade infrastructure

Kraken has historically been one of the more durable consumer brands in crypto. The newer moves (equities access, tokenized equities for non-U.S. markets, P2P payments) indicate a push to convert that brand into a broader "financial super-app" posture—without abandoning institutional-grade primitives like regulated derivatives infrastructure.

C. Trust wedge: transparency and auditability

Kraken's Proof of Reserves program is designed to give customers independent verification that in-scope assets are backed. Whether PoR is "the answer" to

exchange trust is debatable, but strategically it functions as a reputational wedge versus venues that provide weaker transparency.

Traction / Execution

1) IPO readiness signals and capital formation

Reuters reported Kraken confidentially filed for a U.S. IPO and referenced the company's latest valuation step-up, with participation from major market-structure players in the capital raise. Even if timing shifts, the operational implication is that Kraken is building processes, reporting, and governance consistent with public markets.

2) Expansion beyond crypto into equities and tokenization

Kraken launched **commission-free** U.S.-listed stock and ETF trading (initially in select U.S. states, with plans to expand). Kraken and partner coverage also discuss tokenized stock exposure for non-U.S. customers ("xStocks"), reflecting a thesis that traditional assets will migrate toward 24/7, programmable rails even if the regulatory perimeter differs by jurisdiction.

3) Payments: Krak app

Kraken launched **Krak**, positioned as a peer-to-peer payments app enabling transfers across fiat and crypto rails across many countries—explicitly aiming at the "borderless money movement" use case. This is strategically important because payments increases user frequency, improves retention, and creates a pathway to non-trading monetization (cards, lending, etc.).

4) U.S. derivatives: acquisitions and regulatory infrastructure

Kraken acquired **Small Exchange**, described as a CFTC-licensed Designated Contract Market (DCM), which Kraken framed as groundwork for a "fully U.S.-native derivatives product suite." Reuters also described this as part of Kraken's broader derivatives buildout (including NinjaTrader).

Market Opportunity / Competitive Landscape

Kraken is playing in the convergence of **(i) crypto spot trading, (ii) derivatives, (iii) tokenized/24-7 access to traditional assets, and (iv) payments and "bank-**

alternative” consumer finance. This convergence is the real market: not “crypto exchange TAM,” but “global, always-on markets and payments.”

Competitively, Kraken sits between:

- **Consumer-first global exchanges** (mass distribution, high velocity, regulatory variability by region)
- **Institutional venues + prime brokers** (risk engines, collateral efficiency, sophisticated derivatives)
- **Fintech payment apps** (frequency, interchange, stored value, P2P network effects)

Kraken’s wedge is attempting to integrate these layers rather than competing purely on fee compression in spot markets. The acquisitions and product launches signal that management believes the next phase of dominance is about **owning the account relationship** and the **risk/collateral layer** across products.

Product Roadmap & Commercialization

Based on public statements and launches:

- **Krak roadmap:** Reuters noted future plans including physical/virtual cards and additional financial services (e.g., loans) layered on top of the app.
 - **Equities roadmap:** Expansion of U.S. stocks/ETFs coverage and enhancements to the equities experience were announced by Kraken; Reuters framed this as part of broader TradFi/crypto convergence.
 - **Derivatives roadmap:** Kraken’s acquisition of a U.S. DCM platform implies intent to offer deeper U.S.-native derivatives over time under CFTC oversight.
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Technical Overview

Kraken’s technical posture (from publicly described initiatives) can be summarized as building a **unified collateral + risk + matching** stack across asset classes and jurisdictions. In its Small Exchange acquisition announcement, Kraken described the goal of integrating spot, futures, and margin products “inside a single regulated liquidity system,” emphasizing reduced fragmentation and improved capital efficiency (collateral movement and netting).

On the trust side, Proof of Reserves is a crypto-native transparency mechanism Kraken describes as a cryptographic accounting procedure enabling users to verify backing of assets. Whatever its limitations, PoR requires operational rigor and consistent reporting cycles, and it has become part of Kraken's product identity.

Team and Board

Kraken's leadership bench reflects a hybrid of crypto-native operators and institutional financial services veterans — a composition that mirrors the company's strategic pivot toward regulated market infrastructure and public-market readiness.

Arjun Sethi — Co-CEO

Arjun Sethi currently serves as Co-CEO of Kraken and represents the company's forward-facing expansion thesis into broader capital markets and payments infrastructure. Sethi previously co-founded Tribe Capital and has been deeply involved in growth-stage technology investing. His background in scaling high-growth technology companies positions him to steer Kraken through its transition from crypto exchange to multi-asset financial platform. Under his leadership, Kraken has accelerated product diversification into U.S. equities, tokenized assets, and peer-to-peer payments.

Sethi's public positioning emphasizes convergence: the blending of crypto-native rails with traditional financial infrastructure. Strategically, his appointment signals Kraken's intent to operate less as a niche exchange and more as a global financial services provider.

David Ripley — Co-CEO

David Ripley, a long-time Kraken executive, serves alongside Sethi as Co-CEO. Ripley originally joined Kraken as COO and later assumed the CEO role before transitioning into the co-leadership model. His tenure spans some of Kraken's most volatile market cycles, including regulatory shifts, exchange collapses in the broader industry, and multiple crypto downturns.

Ripley brings operational continuity and institutional memory to Kraken's executive structure. His background reflects deep involvement in compliance posture,

exchange operations, and risk management. Under Ripley's leadership, Kraken reinforced its emphasis on transparency initiatives such as Proof of Reserves, positioning the company as a stability-focused platform during industry-wide trust crises.

The dual-CEO model is notable: Sethi drives strategic expansion and capital markets positioning, while Ripley maintains operational rigor and regulatory continuity.

CJ Rinaldi — Chief Compliance Officer (publicly reported)

Kraken's compliance leadership has historically been central to its strategy, given the regulatory complexity of operating across jurisdictions. While executive titles can shift over time, Kraken has consistently emphasized strengthening its regulatory engagement — particularly in derivatives, licensing, and jurisdictional expansion. The acquisition of a CFTC-regulated Designated Contract Market underscores the importance of compliance leadership in enabling product expansion.

Executive Depth in Derivatives & Market Structure

Kraken's acquisition of Small Exchange (a CFTC-licensed Designated Contract Market) and expansion into U.S.-native derivatives signals a deliberate move into regulated market structure. This shift requires executive bench strength in futures exchange operations, clearing, and risk management — skillsets more commonly found in traditional financial exchanges than in crypto-native startups.

From a strategic perspective, Kraken's leadership evolution reflects an intentional blending of:

- Crypto-native exchange operations
- Venture-backed scaling expertise
- Regulated market infrastructure experience

That combination is necessary for a company pursuing an IPO while simultaneously expanding product complexity.

Key Risks

Regulatory and jurisdictional complexity. Kraken is expanding the perimeter (equities, tokenized equities outside the U.S., U.S.-native derivatives). Each adds licensing and compliance surface area and introduces “weakest-link” reputational risk across regions.

Business model cyclical. Even with payments and broader products, trading volumes and derivatives activity remain cyclical and correlated with crypto market regimes; diversification helps but doesn’t eliminate cyclical.

Competitive compression. Fee compression and product parity are structural. Differentiation must come from trust, market structure, and account primacy—not spot fee schedules.

Financials / Exit

Kraken is actively positioning for a **public-market path**. Reuters reported a confidential IPO filing and discussed the company’s valuation context and acquisition-driven expansion—suggesting a strategic intent to reach scale, product breadth, and governance readiness consistent with a listing.

If you’re underwriting a potential IPO outcome, the key diligence questions become: durability of non-spot revenue lines (derivatives, payments), unit economics under fee pressure, and whether unified collateral + regulated venues actually create defensible institutional share.