



# Cryptocurrencies are here to stay

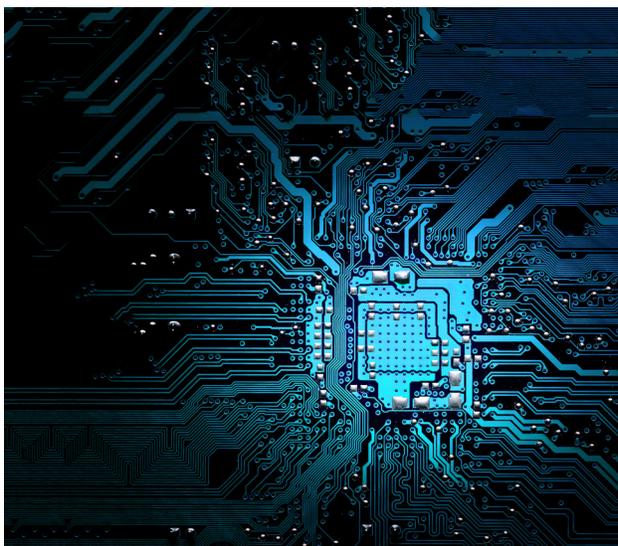
## Are you ready for institutionalization?

### Institutionalization of cryptocurrencies

An investment asset class like commodities. A store of value like gold. A medium of payment like the U.S. dollar. A utility token like in an arcade. However you view cryptocurrencies, they have become impossible to ignore. There are now more than 1,300 cryptocurrencies or cryptos in the market, targeted at various purposes and representing a total market value of about \$465 billion.<sup>1</sup>

But given all of this, institutionalization is what is needed now for cryptocurrencies to meet their full potential. Institutionalization is the at scale participation in the market by small and large entities within the global financial ecosystem, including banks, broker dealers, exchanges, payment providers, fintechs and service providers.

Many organizations probably no longer need any convincing about the viability and use of crypto. In fact, with the advent and growth of this 24x7 market, we believe organizations now have two options: start experimenting with crypto or risk having it forced on them without adequate preparation.



### Key considerations for implementing crypto

Are you ready to institutionalize crypto? We've identified many key considerations described below and represented by KPMG's Cryptocurrency framework on the following page.

**Fork management:** Forks occur when a single cryptocurrency blockchain breaks into two separate chains. They have a significant impact on cryptocurrency businesses. To both decide on fork acceptance and continue to run the business effectively after a fork event, how do you manage the technological, operational, financial, tax and customer relationship implications of the fork?

**Cyber security:** Given the relative anonymity but potentially high value of crypto assets compared to other asset types, crypto businesses are prime targets for cyber criminals. There are some leading industry approaches emerging related to key management, tiered storage, private key resiliency, and crypto blockchain threat monitoring. How can you build a cyber security program ready for crypto infrastructure?

**Customer due diligence:** Crypto owners are identified not by names or account numbers, but by cryptographic addresses that can be created at any time, by anyone, anywhere. This inherent anonymity presents a unique challenge to customer due diligence programs. How do you determine asset provenance and detect suspicious activity while avoiding inefficiencies and compliance fatigue?

**Regulatory compliance:** Maintaining compliance with laws and regulations related to an array of financial crimes is already a major challenge. Now, regulators are focusing in on crypto businesses. A patchwork of regulations has emerged and the regulatory universe continues to evolve. How will you respond?

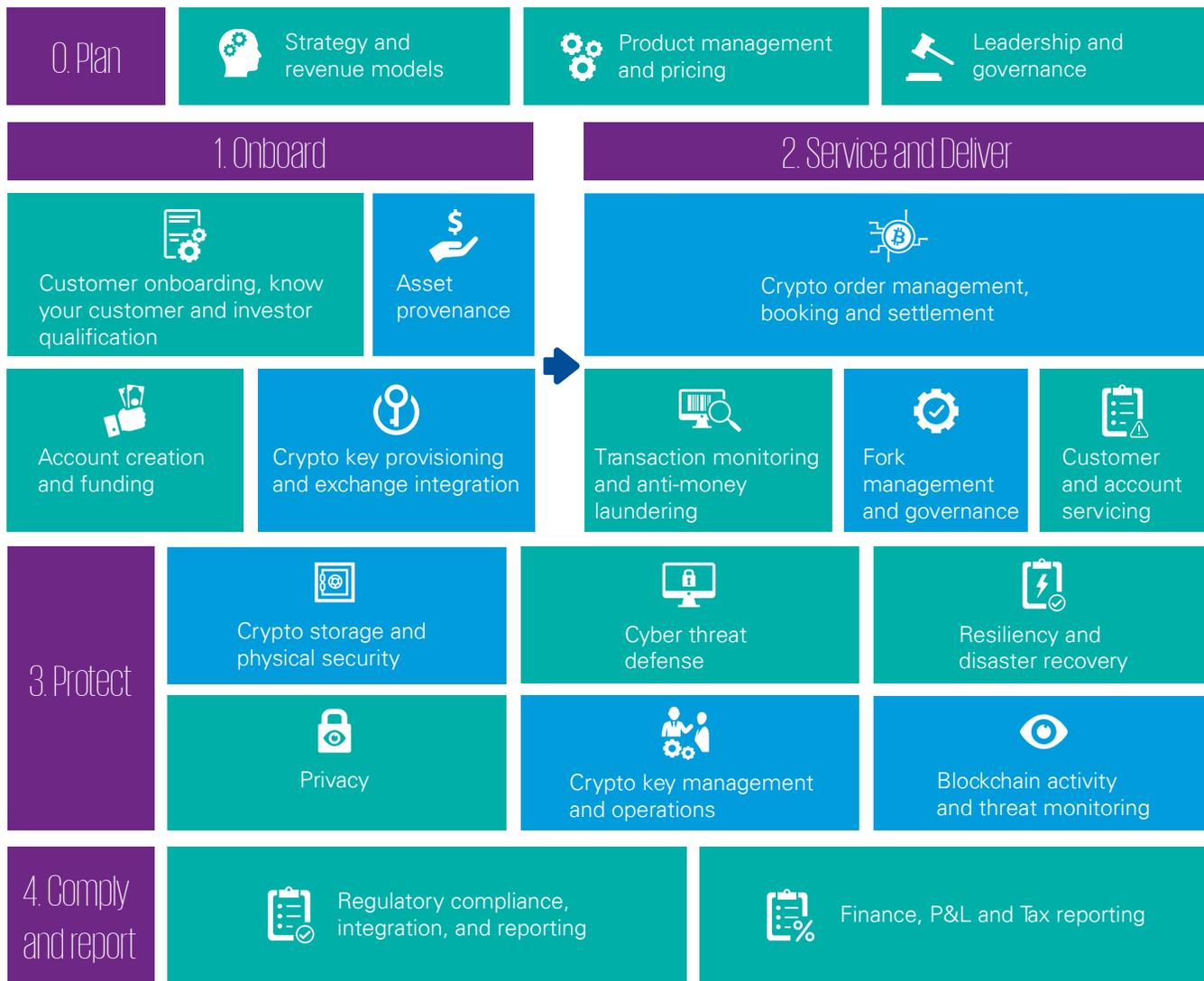
**Tax reporting:** Information regarding the tax treatment of crypto remains limited. Some guidance from the IRS is to treat crypto as property, not as another currency. As such, crypto businesses may face sizable tax liabilities incurred on the sale or exchange of cryptos and bear significant tax accounting burdens with respect to their holdings. How can you simplify and automate crypto tax reporting?

1. Source: Cryptos Go Green as Market Cap Holds Above \$400 Billion (Coindesk, Feb 12, 2018)

## KPMG's Cryptocurrency Framework

We work with crypto startups, large financial services organizations and exchanges to help integrate crypto into their businesses. Our cross-functional crypto practice includes former crypto miners, cyber security professionals,

technology and operations professionals, smart contract developers, regulatory compliance professionals, tax professionals, accounting advisors and auditors. We have built a cross-functional cryptocurrency framework to help organizations on the road to crypto institutionalization.



Primarily crypto-specific capabilities



Traditional capabilities with modifications for crypto products

Connect with us

Please contact us to find out how we can help you adopt crypto.

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