



# Navigating the institutional adoption of cryptoassets

Understand the opportunities and challenges for financial services and institutional investors

Cryptoassets have emerged as an investable alternative asset class, with new product offerings from traditional financial service providers and growing allocations by institutional investors.

## Institutionalization of cryptoassets

Growing regulatory clarity has supported the rise in institutional adoption. In March 2021, Canada became the first country to permit cryptoasset ETFs. Further, the *Investment Industry Regulatory Organization of Canada* and *Canadian Securities Administrators* have clarified the applicability of regulatory requirements for cryptoasset trading platforms. *The Office of the Comptroller of the Currency*, national banking regulator in the United States, has provided guidance on banks acting as a custodian for cryptoassets and stablecoins. Moreover, three cryptonative companies have obtained national banking charters and two charters in the *State of Wyoming*.<sup>1</sup>

Traditional financial service providers have increased their products offerings. Payment providers – *Visa*, *Mastercard* and *Square* – have integrated cryptoasset payments into their platforms.<sup>2</sup> The *Chicago Mercantile Exchange (CME)* has become the largest regulated trading venue for cryptoasset derivatives.<sup>3</sup> Asset managers have issued investment products, which collectively amassed more than \$1 billion in assets under management.<sup>4</sup> Several firms have entered the space by acquiring startups with specific cryptoasset expertise, such as *PayPal* acquiring custodian *Curv*,<sup>5</sup> and Japanese bank *SBI* acquiring cryptoasset market making firm *B2C2*.<sup>6</sup>

In parallel, cryptonative companies have matured significantly. Their services – such as custody, trade execution and financial reporting – now mirror traditional finance. By hiring industry experts and forming strategic partnerships, these firms have onboarded many institutional clients.

Together, these developments have led to material adoption by institutional investors. Since mid-2020, many family offices, strategic investment arms and hedge funds have gained exposure to cryptoassets. Corporate treasuries of publicly traded companies, most notably *MicroStrategy*, *Square* and *Tesla*,<sup>2</sup> have made allocations. Additionally, global insurers, *Mass Mutual* and *New York Life*, have announced exposure.<sup>7</sup> Common investment rationales include a hedge against inflation, an innovative technology play, many arbitrage opportunities available and allocations by other traditional investors.

## Cryptoasset industry by the numbers

### Market Cap of Bitcoin<sup>8</sup>

\$910B

Almost 10% of Gold's market capitalization

### Coinbase IPO<sup>9</sup>

\$104B

7th largest IPO in U.S. history

### Monthly Trading Volume<sup>10</sup>

\$968B

Almost 150% of SPDR S&P 500 (SPY) ETF volume

### CME BTC Volume<sup>3</sup>

\$89B

Over 1,000% increase year-over-year

### Regulated Investments<sup>11</sup>

\$41B

10x increase in AUM year-over-year

### Total Stablecoin Supply<sup>12</sup>

\$128B

10x increase year-over-year in supply and on-chain volume

### BTC Daily Mining Revenue<sup>13</sup>

\$38M

\$13B annualized in transaction fees and mining rewards

### Corporate Treasuries<sup>14</sup>

\$7B

Over 10 publicly traded companies own Bitcoin

## Strategies for Cryptoasset Exposure

### Institutional investors

- Direct allocation
- Investment products
- Publicly traded equities
- Investing in Venture Capital funds

### Financial services

- Custodial offerings
- Payment integrations
- Securities underwriting
- Issuing investment products

## Key adoption challenges



**Developing a strategic vision:** Outlining a roadmap designed to build progressive exposure to the cryptoasset industry.



**Establishing internal controls:** Designing business and IT processes and controls to protect data and support secure operations.



**Securing cryptoassets:** Establishing an internal or external solution to safeguard an institution's or its clients' cryptoassets.



**Accounting and financial reporting:** Applying industry standard practices for accounting and reporting of cryptoassets under IFRS, GAAP and ASPE



**Vendor assessment:** Analyzing the competitive landscape for service providers, strategic partnerships and acquisition targets.



**Regulatory Compliance:** Ensuring cryptoasset activity remains compliant and meets relevant regulatory requirements as they evolve.

## How we can help

KPMG's national cryptoasset practice is positioned to support institutional investors and financial services firms in developing their strategy for adopting cryptoassets. Our deep experience spans the spectrum of considerations throughout your journey:



### Common Journey Considerations

Education	Vendor Assessment	Risk Management	Custody
IT Controls	Legal Guidance	Systems Integrations	Regulatory Compliance
Operational Model	Governance	Finance & Accounting	Tax & Strategy



### Institutional Investors

Thesis	Data & Analytics	Investment Execution	Disclosures
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### Financial services

Business Strategy	Proof of Concept	Solution Architecture	Full Scale Implementation
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## Developed globally. Delivered locally.

We have developed a suite of solutions, frameworks, alliances and proven credentials to support clients in their cryptoasset and blockchain initiatives. Our global network of member firms is comprised of over 120+ partners and professions from over 30 different countries. KPMG's cryptoasset capabilities provide an integrated offering across our tax, audit and advisory services.

Globally, we have supported clients with an extensive range of cryptoasset engagements – educational workshops, vendor assessments, treasury allocation guidance, readiness assessments, technical control gap remediation, compliance testing, SOC attestations, custody service offerings and financial audits.

## Citations

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Note: All data included as of June 15, 2021 and all prices are reported in Canadian Dollars.

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