



# Institutionalization of cryptoassets

Growing regulatory clarity in the blockchain & cryptoasset industry will continue to provide support for institutional adoption. Since March 2021, Canada has marked several milestones including the successful launches of cryptocurrency ETFs and increased retail access to cryptocurrencies and related financial products. Further, the New Self-Regulatory Organization of Canada and Canadian Securities Administrators have clarified the applicability of regulatory requirements for cryptoasset trading platforms.<sup>1</sup> The Financial Accounting Standards Board has also announced new guidance on accounting practices for cryptoassets.<sup>2</sup> Moreover, the industry has also seen regulators take action, with the Office of Foreign Assets Control announcing sanctions against Tornado Cash, a cryptocurrency mixer allegedly used to launder crime proceeds.<sup>3</sup>

Over the past few years, traditional institutions and corporations have increased their presence in the cryptoasset ecosystem. Several institutional firms have begun to offer institutional and limited retail access to cryptoasset products to allow cryptoasset exposure; A 2022 survey found that 85% of investors “agree there is a need for open-source digital currencies as a diversifier in a portfolio or treasury account.”<sup>4</sup> KPMG in Canada has also added Bitcoin and Ethereum to the corporate treasury.<sup>5</sup> The positioning of these large traditional finance firms is indicative of further institutional adoption of cryptoassets.

Last year marked the largest year for venture funding in the cryptoasset industry. Roughly \$32B was deployed throughout the year despite the many negative headlines.<sup>6</sup> Consolidation was another major theme of 2022, as there were over 250 M&A deals in the year, which represents a 13% increase since 2021.<sup>6</sup> Canada also saw consolidation within its cryptoasset industry as 2022 saw a number of mergers and acquisitions.<sup>7</sup>

The largest takeaway from the year, however, may be the need for proper risk management. A slew of individual actors demonstrated the need for governance, transparency, internal controls, and independent audits across the industry. The collapse of a blockchain network the Terra ecosystem led to severe financial stress and insolvency of several notable cryptoasset hedge funds.<sup>8</sup>

A lack of transparency allowed these funds to maintain large leveraged positions that ultimately put their respective funds in jeopardy, as underlying assets declined in value precipitously. As the contagion propagated throughout the second half of 2022, the daisy chain culminated with the fall of several prominent cryptoasset businesses.<sup>9</sup> These events revealed a lack governance and internal controls, as well as conflicts of interest and mismanagement of clients’ assets.<sup>9</sup> Despite these setbacks, the industry remains resilient as more regulatory clarity emerges and the underlying technology continues to innovate.

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

## Cryptoasset industry by the numbers



# How KPMG in Canada can help

Breadth of Service Offerings

## Education

- Deliver interactive and customized education modules on various key cryptoasset topics including: Trading & Custody, Market Structure, Compliance & Regulatory Risk, Stablecoins, DeFi, NFTs, and the Metaverse.
- Conducting live demonstrations of on-chain transactions.

## Vendor Assessment

- Conduct in-depth due diligence on ecosystem vendors, including an analysis of key risks, security, compliance, integration complexity and operational risks.
- Ecosystem vendors include custodians, exchanges, infrastructure providers, payment and liquidity providers, among others.

## SOC Readiness & Attestation

- Develop and deliver on a customized SOC roadmap in preparation for readiness and remediation assessments.
- Conduct SOC attestations (Type I and Type II) based on regulatory requirements and industry best practices for the secure management of cryptoassets and blockchain systems.

## Feasibility Analysis & Thesis Development

- Provide guidance on launching new product offerings, including high level business strategy and value proposition development.
- Assess and develop strategic roadmap for the adoption of cryptoasset and blockchain products and services.

## Risk Frameworks & Policies

- Design and review internal controls, risk policies, and procedures in areas including operations, finance, custody, and regulatory compliance.
- Update existing policies to include key considerations and oversight of cryptoassets.

## Treasury Management

- Creating tailored treasury policies for effective cryptoasset risk management
- Designing cash flow and liquidity management strategies for client assets
- Supporting in the development of hedging strategies to minimize market volatility exposure
- Providing ongoing monitoring support to enable dynamic treasury strategies in response to market changes

## Business Strategy & Operation Model

- Develop business strategies in the cryptoasset and blockchain space, including identification of long-term goals and definition of key market trends, opportunities and potential ecosystem partners.
- Design and implement effective operational models, including optimization of processes and design of organizational structure.

## Licensing & Regulatory Compliance

- Support in identifying and meeting licensing requirements and evaluate compliance with regulatory requirements across jurisdictions of business.
- Assist in ensuring all internal policies are updated and compliant with relevant cryptoasset laws and regulations.
- Support in preparation of key documentation and holding discussions with regulators.

## Exchange & Custody Integration

- Assessing client needs and determining appropriate exchange and liquidity solutions to align with their goals
- Implementing exchange and custody solutions with user interfaces into existing systems with a focus on security, compatibility, regulatory compliance and user experience
- Designing robust security and risk management practices

## Proof-of-Concept

- Design and support on proof-of-concept (PoC) for cryptoasset and blockchain initiatives, including identifying use cases and development of functional requirements.
- Provide analysis and evaluation of the technical feasibility of PoC designs.

## Financial Crime & Forensics

- Provide support and guidance in the investigation of illicit activity involving cryptoassets.
- Assess AML and KYC programs to determine regulatory compliance.
- Leverage on-chain tracking tools to monitor, identify and report suspicious or illicit activity.

## Financial Audit Readiness & Delivery

- Assist in documenting accounting procedures, internal controls, and operational processes.
- Support on building risk and control frameworks for cryptoasset transactions.
- Assess general IT, application, and cryptoasset custody controls in support of financial statement audits.

# How KPMG in Canada can help

Breadth of Service Offerings

## Legal Advisory

- Provide support and guidance on complex legal considerations with a company's legal team and/or regulators.
- Support navigating the developing legal and regulatory landscape to ensure compliance.

## Accounting Advisory

- Assisting management to understand/assess application of IFRS and US GAAP to current and proposed digital asset products and strategies, including development of controls and processes to support financial and management reporting.
- Providing support on assisting management to understand the regulatory environments and potential capital requirements for digital asset lenders.

## Tax Advisory

- Analyze current business models with insights on tax reporting requirements for cryptoasset and blockchain products, including but not limited to: trading, staking, lending and borrowing cryptoassets.
- Assist in navigating the complex and evolving regulatory landscape, ensuring compliance.

## Deal advisory

- Provide strategic advice on identification of targets, target approach/offers, and deal structuring.
- Comprehensive buy-side/sell-side deal execution including project management, advisor coordination, due diligence, financial modelling, valuation, negotiation support, closing, and post closing consideration adjustment support.

## Corporate Governance

- Design and review governance structures and frameworks on enterprise-wide scale including effective three lines of defense.
- Evaluate and optimize corporate structure to support management and oversight of cryptoassets.

## IPO Readiness

- Provide guidance on developing a tailored IPO strategy.
- Assist in navigating the complex and evolving regulatory landscape, ensuring your IPO is fully compliant.
- Assist in building and maintaining strong investor relations.

## ESG Support

- Assist Proof-of-Work miners in adopting and improving an ESG strategy.
- Provide support to implement metrics, evaluate the impact of, and measure the performance of ESG initiatives.

## Contact us



### Kareem Sadek

Partner, Advisory, Cryptoassets & Blockchain Co-leader  
416-777-3446  
ksadek@kpmg.ca



### Kunal Bhasin

Director & Co-leader, Cryptoassets & Blockchain CoE  
416-777-8347  
kbhasin@kpmg.ca



### James Emerson

Manager, Cryptoassets & Blockchain CoE  
416-476-2811  
jemerson@kpmg.ca

# Data and news sources

<sup>1</sup> CSA provides update to crypto trading platforms operating in Canada article, CSA, December 12, 2022

<sup>2</sup> Accounting for and Disclosure of Crypto Assets article, FASB February 8, 2023

<sup>3</sup> U.S. Treasury Sanctions Notorious Virtual Currency Mixer Tornado Cash press release, US Treasury Department August 8, 2022

<sup>4</sup> The Next Wave of Institutional Digital Asset Adoption article, Coindesk, Dec 28, 2022 by Sean Lee

<sup>5</sup> KPMG in Canada completes its first direct investment in cryptoassets press release, KPMG Canada, February 6, 2022

<sup>6</sup> Q4'22 Blockchain Venture Funding and M&A Recap article, TheBlock, January 18, 2023 by John Dantoni

<sup>7</sup> The Fintech Times – Canada's Crypto Consolidation article, Betakit, April 25, 2022, by Cameron Chaddad

<sup>8</sup> The Real Reasons Behind the Crypto Crash, and What We Can Learn from Terra's Fall article, Time, May 17, 2022, By Andrew Chow

<sup>9</sup> The companies that helped create 2022's 'crypto winter' article, Washington Post, December 13, 2022 , by Julian Mark

<sup>10</sup> The Block, Data, Crypto-Markets, Prices

<sup>11</sup> Ultra Sound Money

<sup>12</sup> The Block, Data, Crypto-Markets, Structured Products

<sup>13</sup> The Block, Data, Decentralized-finance, Stablecoins

<sup>14</sup> The Block, Data, Decentralized-finance, Dex-non-custodial

<sup>15</sup> CoinGecko, Bitcoin Holdings By Public Companies

*Note: All data included as of January 23, 2023, and all prices are reported in USD.*





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