

Year End Review: Blockchain & Cryptoassets

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About me

- ▶ Dr. Sean Stein Smith, CPA, CMA, CGMA, CFE
- ▶ Assistant Professor, Lehman College, City University of New York
- ▶ Forbes Contributor - Crypto & Blockchain
- ▶ AICPA Outstanding CPA of the Year (2022)
- ▶ Accounting Today Top 100 Most Influential People in Accounting
- ▶ E.C. Harwood Visiting Research Fellow - American Institute of Economic Research
- ▶ Board of Advisors - Wall Street Blockchain Alliance (WSBA)
- ▶ Chair, Accounting Working Group, WSBA
- ▶ Advisory Board Member - Gilded “Crypto Accounting Made Simple”
- ▶ Strategic Advisor - Crescent City Capital
- ▶ 40 under 40 in Accounting (2017-2022)
- ▶ NJCPA Trustee (2022-2025 FY)

Agenda



**MARKET
UPDATE/RECAP**



**REGULATORY
UPDATE**



**AUDIT/TAX
IMPLICATIONS**

Some questions

- ▶ Are we going to talk about FTX?
 - ▶ Yes
- ▶ Is crypto going to \$0
 - ▶ I don't think so
- ▶ Is crypto a giant Ponzi scheme?
 - ▶ Funny you should ask?
- ▶ What is your 2023 prediction?
 - ▶ We will cover that at the end



Quick crypto level-set



FTX is not fine



FTX meltdown

FTX was a market leader in the cryptoasset marketplace

Obtained numerous celebrity endorsements and naming rights for venues

Had served as the “white knight” for other crypto organizations during the ongoing bear market

That all changed starting on November 6th, 2022

Let's take a look at the timeline of the collapse of FTX and its proposed acquisition by Binance

Binance-FTX timeline

- ▶ July 2022 - FTX and Sam Bankman-Fried (SBF) bankrolled the troubled crypto lender BlockFi, and acquires Canadian crypto firm Bitvo as well as agreeing to acquire Voyager Digital
- ▶ August 2022 - Alameda Research co-CEO steps down
 - ▶ Alameda Research is closely connected to FTX, raising questions around governance and risk management
- ▶ September 2022 - FTX President steps down
- ▶ October 2022 - SBF is revealed to having donated \$50 million to U.S. political candidates, and expresses support for Digital Commodities Consumer Protection Act
 - ▶ Widely rejected by the crypto community, except for SBF

Binance-FTX timeline

- ▶ November 2022 - CoinDesk reports that Alameda's balance sheet is comprised, to large part, of the FTT token, which is native to FTX
- ▶ Almost \$600 million of FTT is transferred to Binance to be liquidated
 - ▶ Led to a bank-run on FTT tokens and withdrawal demands by customers
- ▶ Pledge from Alameda to buy FTT at \$22 fails to stop price slide
- ▶ Around 11 a.m. on November 8th it was announced that Binance would acquire FTX
- ▶ Due to FTX suffering liquidity issues and inability to meet customer withdrawal demands
- ▶ November 11th - FTX files for bankruptcy



FTX Takeaways

- ▶ As FTX collapsed several things became clear
 - ▶ Corporate governance was non-existent
 - ▶ Questionable loans and trading activities went on between related parties
 - ▶ Disclosures and valuations were inconsistent at best
 - ▶ Non-U.S. based organizations increasingly have a spotty track record
 - ▶ Bankruptcy procedures have not evolved to deal with such a large crypto filing
- ▶ Regulators and regulation will absolutely be coming for the space
- ▶ Might result in sped up process to create crypto-specific rules

Let's have some context

- ▶ October 2022 - Mastercard partners with Paxos to help banks and other intermediaries authorize and settle financial transactions
 - ▶ Already used by PayPal
- ▶ Madeira Islands (Portugal) are planning to embrace/adopt bitcoin
 - ▶ Potentially as legal tender
- ▶ Bitcoin Cash to be accepted as legal tender in St. Kitts
- ▶ Stablecoin transaction volume topped \$800 billion in September
- ▶ That's not all

More context

- ▶ Blackrock and Coinbase have agreed to offer a jointly managed platform to allow institutions access to crypto trading and custodial services
- ▶ JP Morgan is expanding its enterprise blockchain, Onyx, and just completed it's first ever decentralized finance transaction
 - ▶ Polygon blockchain
- ▶ About 1 billion people have used crypto in 2022
- ▶ About 320 million daily users worldwide
- ▶ But there is more....

Keep this in mind

- ▶ 2022 has seen multiple centralized exchanges and platforms fail or struggle dramatically
 - ▶ Celsius
 - ▶ TerraLabs
 - ▶ BlockFi
 - ▶ FTX
 - ▶ Many others
- ▶ Investors withdrew over \$1 billion in bitcoin from exchanges over the weekend
- ▶ Creates opportunities for new services - crypto & cyber

How is BTC different from fiat?

Bitcoin

- ▶ Fixed supply (21 million)
- ▶ Requires investment to create new units
- ▶ Not issued by a government or central oversight authority
- ▶ Borderless
- ▶ Cryptographically secured

USD

- ▶ Unlimited supply (printer go brrr)
- ▶ No investment required to increase supply
- ▶ Controlled entirely by central government or central bank
- ▶ Linked to specific nation-state
- ▶ No inherent security

Different cryptoassets (more than bitcoin)

Crypto-classes

- ▶ Decentralized cryptocurrencies
 - ▶ Bitcoin
- ▶ Semi-centralized cryptocurrencies
 - ▶ Stablecoins
- ▶ Centralized cryptocurrencies
 - ▶ Central bank digital currencies

Applications

- ▶ Smart contracts
 - ▶ Enable blockchains to talk to other technology
- ▶ Decentralized autonomous organizations
 - ▶ Organization governed by smart contracts
- ▶ DeFi
 - ▶ Banking without the banks

Hot wallet



Online portal or accessible web tool that stores the private key or other identifying information



Connects to the blockchain where the cryptocurrency is stored



No crypto is actually stored in the hot wallet itself



Most convenient method of accessing and using crypto for day-to-day purposes

Hot wallet considerations



Many hacks, theft, and breaches have occurred via the hot wallets of exchanges



Including Binance with over \$40 million in investor losses



Not protected by blockchain encryption



Simply a website with traditional password protection

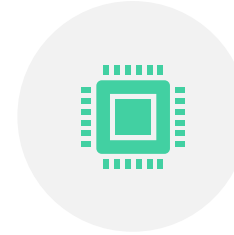


Represents a vulnerability for uninformed investors/advisors

Cold wallet



OFFLINE STORAGE METHOD
FOR INVESTORS SEEKING
GREATER PROTECTION OVER
ACCESS TO
CRYPTOCURRENCY



SPECIALLY DESIGNED
HARDWARE TO HOLD
CRYPTO-RELATED
INFORMATION



USUALLY COMES WITH BUILT
IN SECURITY TO PROTECT
INFORMATION FROM HACKS
ON THE COMPUTER OR
NETWORK ITSELF



NUMEROUS OPTIONS
AVAILABLE FOR PURCHASE
ON AMAZON AND OTHER
MAJOR RETAIL SITES

Cold wallet considerations

- ▶ What hardware option to purchase?
- ▶ How to designate authorized parties
- ▶ Processes to be implemented to grant access to the cold wallet itself
- ▶ Physical storage considerations
 - ▶ Should be offsite in a secure location
 - ▶ May even be a bank safety deposit box
 - ▶ Procedures for recovering it must be documented

Key management

- ▶ One additional consideration for anyone seeking to provide services in this space is to understanding the following
- ▶ Public key & private key
- ▶ Public key = your address
- ▶ Private key = key that opens your P.O. box
- ▶ Public keys can be shared widely
- ▶ Private keys must be protected
- ▶ “Not your keys not your coins”

Crypto Market Update

The background features a complex, abstract design of overlapping, semi-transparent blue polygons. The colors range from light sky blue to deep navy blue. The shapes are primarily triangles and quadrilaterals, creating a dynamic, layered effect that is most prominent on the right side of the image.

Ethereum merge, recap.

The Ethereum merge has successfully been completed (September 2022)

- Ethereum blockchain has converted from Proof-of-Work consensus to Proof-of-Stake consensus
- Energy consumption will decline by approximately 99% as a result
- Opens the door for further pivoting away from BTC to ETH as crypto market leader

Tax accounting has not changed

- More on that later

Financial accounting has not changed

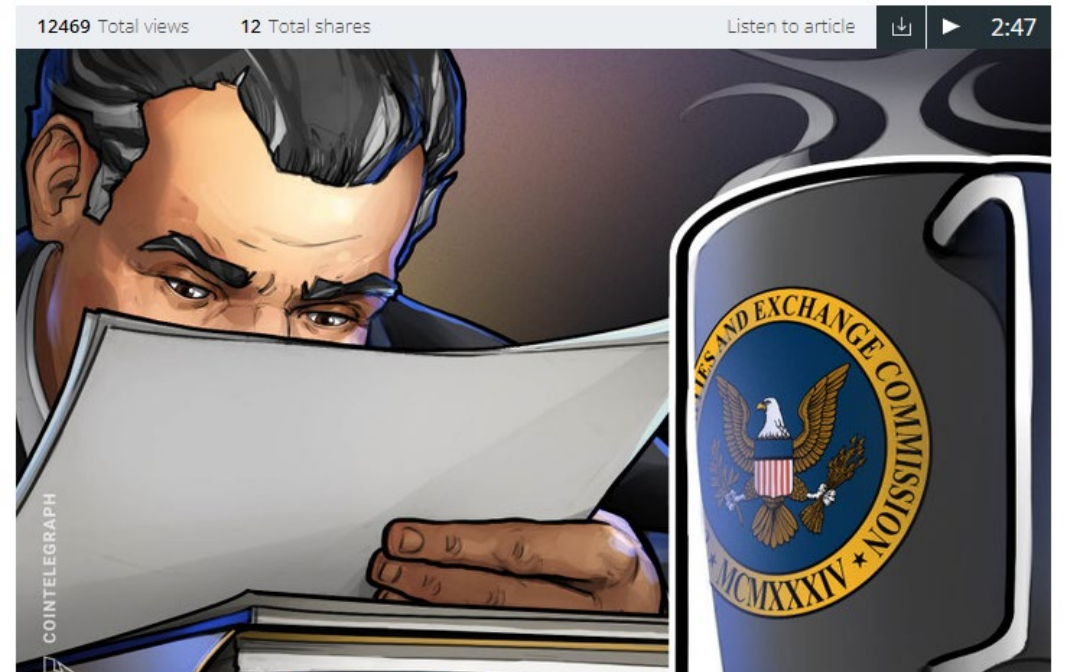
- Not yet at least

Is ether a security?

- ▶ Same day as ETH merge completing, SEC chair Gary Gensler offered testimony that staked crypto could qualify as securities
- ▶ Meet criteria of the Howey Test as an “investment contract”
- ▶ <https://cointelegraph.com/news/ether-staking-could-trigger-securities-laws-gensler>

Ether staking could trigger securities laws — Gensler

Though he did not specify any particular crypto, SEC chair Gary Gensler said proof-of-stake cryptocurrencies could be subject to securities laws.



SEC Crypto Asset Office - Sept 2022

- ▶ Office of Crypto Assets will join the seven (7) existing offices that handle corporate disclosure filings
- ▶ <https://www.reuters.com/markets/us/us-sec-set-up-new-office-crypto-filings-2022-09-09/>
- ▶ *Office of Crypto Assets*
- ▶ The Office of Crypto Assets will continue the work currently performed across the DRP to review filings involving crypto assets. Assigning companies and filings to one office will enable the DRP to better focus its resources and expertise to address the unique and evolving filing review issues related to crypto assets.
- ▶ <https://www.sec.gov/news/press-release/2022-158>



U.S. GAAP Primer

- ▶ U.S. Generally Accepted Accounting Principles are the rules that U.S. publicly traded firms must follow
 - ▶ U.S. domiciled and foreign firms trading on U.S. markets
- ▶ Determines how assets, liabilities, and equity instruments are reported on financial statement and for external financial reporting purposes
- ▶ The Financial Accounting Standards Board (FASB) is the group that writes, reviews, and codifies GAAP standards
- ▶ Up until 2021-2022, the FASB refused to consider crypto accounting rules at all

The GAAP problem

- ▶ What is the best way to describe crypto from an accounting perspective?
- ▶ Asset?
- ▶ Liability?
- ▶ Equity?
- ▶ In most cases it can be argued that crypto represents some sort of asset
- ▶ But what kind?

- ▶ Intangible

- ▶ So what's the problem?



The GAAP problem, cont.

- ▶ Under U.S. GAAP
 - ▶ Intangible assets cannot be marked to market
 - ▶ Intangible assets must be tested for impairment
 - ▶ If impairment has occurred, these assets must be written down
 - ▶ After impairment has occurred, the value can never be restored
- ▶ These represent major issues for firms seeking to use/accept/hold cryptoassets
- ▶ Crypto remains a volatile asset class

FASB Takes Action

- ▶ More recently the FASB has taken action to try and resolve these accounting issues
 - ▶ December 2021 the FASB added a digital asset project to its research agenda
 - ▶ May 2022, the FASB added this project to its technical agenda
- ▶ All seemed to be moving in the right direction
- ▶ <https://www.fasb.org/Page/ProjectPage?metadata=fasb-Accounting-for-and-Disclosure-of-Crypto-Assets>
- ▶ Not quite as thorough as was previously hoped



August/September 2022 update

- ▶ The FASB has released a statement setting the criteria that will be used on this project
- ▶ NFTs are excluded
- ▶ Certain stablecoins are excluded
- ▶ No specific crypto named to be included or not



The screenshot shows the CoinDesk website interface. At the top, the CoinDesk logo is visible, along with navigation links for 'Layer 2' and 'Newsletters'. Below the logo, there is a horizontal menu with categories: Business, Tech, Policy, Indices, TV & Videos, Podcasts, Crypto Explainer+, Events, Research, About, and Sponsored Content. A dark bar below the menu displays market data for several cryptocurrencies: Ethereum (\$1,616.55, +1.18%), Binance Coin (\$270.11, -1.72%), XRP (\$0.326083, -0.76%), and Binance USD (\$0.999975, +0.03%). The main content area features a 'Policy' section with the headline 'FASB Crypto Accounting Review Won't Include NFTs, Certain Stablecoins: Report'. The sub-headline reads: 'The accounting standards body outlined its criteria for crypto assets that would be covered by a forthcoming rule regarding companies and their digital assets.'

Good news!

October 2022

- ▶ FASB announced that certain cryptoassets, including bitcoin and ether, can be accounted for a fair-market-value
- ▶ Still has to proceed through the rule-making process
- ▶ GREAT first step toward establishing crypto-specific accounting guidance
- ▶ <https://www.coindesk.com/business/2022/10/13/fasb-mulls-fair-value-accounting-for-crypto-holdings-report/>



The image is a screenshot of a CoinDesk article. At the top, there is a navigation bar with a 'Podcasts' button and the CoinDesk logo. Below the logo are several menu items: 'Companies', 'Policy', 'Technology', 'Web3', 'Learn', and 'Layer 2'. A secondary navigation bar displays a list of cryptocurrencies with their current prices and percentage changes: Bitcoin (\$1,333.05, +2.18%), XRP (\$0.481538, +1.29%), Binance Coin (\$275.69, +1.46%), Binance USD (\$0.999840, +0.12%), Cardano (\$0.372842, +0.81%), and Stellar (\$0.372842, +0.81%). The main content area features the word 'Business' in green, followed by the article title 'FASB Mulls Fair-Value Accounting for Crypto Holdings: Report' in bold black text. Below the title is a short summary: 'Fair-value accounting for crypto will encourage companies to put bitcoin on their balance sheet, according to Michael Saylor.' At the bottom of the article snippet, it says 'By Oliver Knight' and 'Oct 13, 2022 at 5:48 a.m. EDT'.

PCAOB in the conversation

- ▶ The Public Company Accounting Oversight Board recently issued some preliminary information on audits involving cryptoassets
- ▶ <https://pcaobus.org/Documents/Audits-Involving-Cryptoassets-Spotlight.pdf>



Jarrett vs. United States

- ▶ Nothing has changed as a result of these headlines
- ▶ Staking rewards are still an ambiguous tax topic
 - ▶ Post-merge this will become more important
- ▶ No change to IRS guidance or FAQs
- ▶ No indication that policy changes are coming
- ▶ Conversation specific to the unique facts and circumstances of this case and complaints therein
- ▶ <https://www.natlawreview.com/article/recent-tax-developments-concerning-staking-rewards>
- ▶ <https://news.bloombergtax.com/tax-insights-and-commentary/taxpayers-in-jarrett-case-still-seek-an-answer-on-crypto-staking>

Bad news!

Sept/Oct 2022

- ▶ Jarrett case has been dismissed
- ▶ Jarrett plans to file appeals with existing legal team
 - ▶ Includes the Proof of Stake Alliance
- ▶ As of right now, block rewards and staking rewards are taxable upon creation
- ▶ <https://news.bloombergtax.com/daily-tax-report/crypto-staking-tax-lawsuit-ruled-moot-after-irs-issued-refund>



Photographer: Michael Short/Bloomberg

Crypto Staking Tax Lawsuit Ruled Moot After IRS Issued Refund

More regulation (pending)

President's Working Group Report on Stablecoins

- ▶ Issued in Q4 2021
- ▶ <https://home.treasury.gov/news/press-releases/jy0454>
- ▶ First comprehensive report on stablecoins issued by the Federal Government, with major private sector partners
- ▶ Not supportive of the sector nor its use cases

An official website of the United States Government

 U.S. DEPARTMENT OF THE TREASURY

ABOUT TREASURY POLICY ISSUES DATA SERVICES **NEWS**

We can do this. Find COVID-19 vaccines near you. Visit [Vaccines.gov](https://www.vaccines.gov).

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NEWS

- Press Releases**
- Statements & Remarks
- Readouts
- Testimonies

PRESS RELEASES

President's Working Group on Financial Markets Releases Report and Recommendations on Stablecoins

U.S. Executive Order - Crypto

- ▶ Long-awaited executive order signed into law in March 2022
- ▶ No specific actions steps or policies
- ▶ Three (3) main takeaways
 - ▶ No crypto ban or shadow-ban
 - ▶ Mandates coordination among policymakers
 - ▶ Definitive shift toward integration
- ▶ <https://www.brookings.edu/blog/techtank/2022/03/17/how-bidens-executive-order-on-cryptocurrency-may-impact-the-fate-of-digital-currency-and-assets/>



SEC - Staff Accounting Bulletin

- ▶ Published March 31, 2022 with effective date April 11, 2022
- ▶ Proposes several accounting specific changes for publicly traded organizations offering crypto custodial services
 - ▶ Reporting of cryptoassets held for customers as liabilities, offset by an asset
 - ▶ Disclose risks associated with cryptoassets
 - ▶ Guidance to be applied by June 15, 2022
- ▶ Is not official guidance nor enforceable law
- ▶ <https://www.sec.gov/oca/staff-accounting-bulletin-121>
- ▶ Commissioner Peirce issued response
- ▶ <https://www.sec.gov/news/statement/peirce-response-sab-121-033122>

TRUST Act

- ▶ Draft legislation issued by Senator Toomey's office on April 6, 2022
- ▶ Centers around the issue of stablecoin issuance and crypto banking
- ▶ Three (3) primary issues
 - ▶ Establishes a new federal license designed specifically for stablecoin issuers;
 - ▶ Preserves the state-registered money transmitter status for most existing stablecoin issuers; and
 - ▶ Clarifies that insured depository institutions are permitted to issue stablecoins
- ▶ States that stablecoins are not securities and stablecoin issuers need to have annual attestations
- ▶ <https://www.banking.senate.gov/newsroom/minority/toomey-announces-legislation-to-create-responsible-regulatory-framework-for-stablecoins>

Lummis-Gillibrand Responsible Financial Innovation Act

- ▶ Introduced in June 2022, and contains several important takeaways
- ▶ Proposes to grant the CFTC authority over any and all digital assets that are not securities
- ▶ Introduces a de minimis exemption for taxation of personal crypto transactions
 - ▶ \$200
- ▶ Mining & staking would not be taxable until sold
- ▶ Increases definition around stablecoins
- ▶ Recommends creation of an Advisory Committee on Financial Innovation
- ▶ <https://cointelegraph.com/news/lummis-gillibrand-crypto-bill-comprehensive-but-still-creates-division>

New York Dept. of Financial Services

- ▶ Recently issued guidance on how stablecoins are to be treated (and used) within NY state lines
- ▶ Borrows significantly from the TRUST Act
 - ▶ Classification as payment stablecoins
 - ▶ Backed and redeemable into U.S dollars
 - ▶ Monthly attestations are required
- ▶ Only for stablecoins regulated by the NYDFS, but reasonable to expect other states to follow
- ▶ https://www.dfs.ny.gov/industry_guidance/industry_letters/il20220608_issue_nce_stablecoins

Do we need crypto audits?

I mean, really?

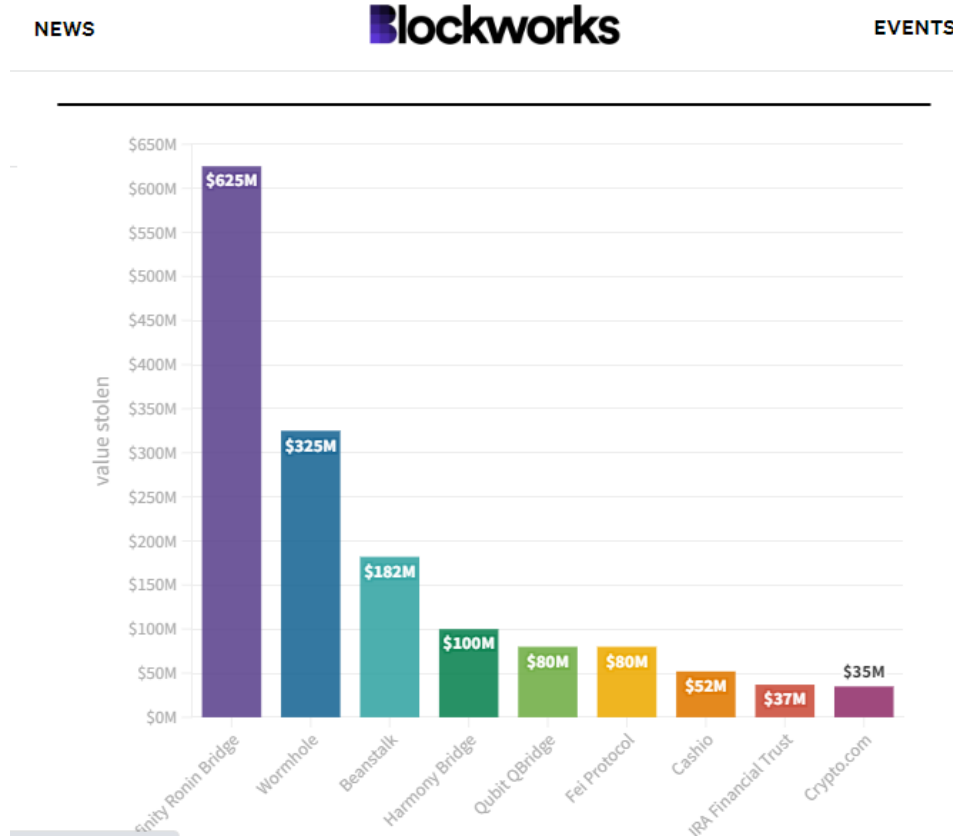


2022 Hacks

- ▶ Crypto hackers have stolen over \$3 billion in 2022 alone
- ▶ Set to be the all-time-high for crypto hacks and breaches
- ▶ 125 individual hacks or breaches that have occurred
- ▶ October 2022 - \$718 million has been stolen from decentralized finance protocols
- ▶ <https://www.moneycontrol.com/news/business/cryptocurrency/crypto-hackers-steal-3-billion-in-2022-set-to-be-biggest-year-for-digital-asset-heists-9347301.html>

Top hacks of 2022

- ▶ Ronin Network - \$620 million
- ▶ Wormhole - \$320 million
- ▶ Nomad - \$190 million
- ▶ Beanstalk - \$182 million
- ▶ Are there any common traits?
- ▶ <https://www.moneycontrol.com/news/business/cryptocurrency/crypto-hackers-steal-3-billion-in-2022-set-to-be-biggest-year-for-digital-asset-heists-9347301.html>



Common attributes of crypto hacks

- ▶ Some of the most common hacks and breaches include
 - ▶ Hacks and breaches of exchanges
 - ▶ Hot wallet hacks
 - ▶ Scams, rug-pulls, etc
 - ▶ Ransomware
 - ▶ Phishing
 - ▶ Malware
 - ▶ Password hacks/breaches
 - ▶ Bitcoin ATM scams
 - ▶ <https://usa.kaspersky.com/blog/crypto-hacks/20042/>

Crypto hack - August 2021 (interesting one)

- ▶ Over \$600 million stolen in Poly hack
- ▶ Spans multiple blockchains, exchanges, and financial institutions
- ▶ Operates in the decentralized finance (DeFi) space
- ▶ <https://www.reuters.com/technology/defi-platform-poly-network-reports-hacking-loses-estimated-600-million-2021-08-11/>

Technology

Crypto platform Poly Network hacked in estimated \$600 mln cyberheist

Alun John, Tom Westbrook, Tom Wilson



Crypto hack - the plot thickens

- ▶ Most funds were eventually returned..
- ▶ <https://www.reuters.com/technology/over-half-crypto-tokens-stolen-610-mln-hack-now-returned-poly-network-says-2021-08-12/#:~:text=Poly%20Network%2C%20a%20platform%20that,are%20still%20outstanding%2C%20it%20s%20aid.>

Technology

Over half of crypto tokens stolen in \$610 mln hack now returned, Poly Network says

Tom Wilson

Phew...

- ▶ Something you might be thinking is



Accounting Standards?



Nothing authoritative from the FASB that is crypto-specific



AICPA has issued several research and whitepapers



Most recently



Accounting for and Auditing of Digital Assets [Practice Aid]



<https://www.aicpa.org/interestareas/informationtechnology/resources/blockchain/digital-assets.html>

Blockchain & Audit

The background features a complex, abstract design of overlapping, semi-transparent blue polygons. The colors range from light sky blue to deep navy blue. The shapes are primarily triangles and quadrilaterals, creating a dynamic, layered effect that is most prominent on the right side of the image.

Will blockchain destroy the audit?



- ▶ Are auditors going to become redundant?
- ▶ No!
- ▶ Automation is coming to the profession, but blockchain will not replace auditors or the audit process
- ▶ Let's get to it?



ns

Big picture



- ▶ There are a few things every audit or assurance professional needs to know about blockchain and audit
- ▶ No need to become computer programmers or coding experts overnight
- ▶ Need to be able to articulate and communicate core items that clients and professionals need to know about

What are we auditing?



A blockchain/crypto audit can mean multiple different things

- Smart contract
- Reserves
- Valuation
- Cybersecurity
- Financial statement presentation



First question that needs to be answered



Different engagements and cryptoassets will lead to different questions



Reserve audit questions

- ▶ Almost always pertains to stablecoins like USDT, USDC, etc.
- ▶ Several different kinds of reserve audit questions
 - ▶ Asset-backed-tokens
 - ▶ Exchange/firm issued liabilities
 - ▶ Cybersecurity/insurance requirements
- ▶ Basically, are the tokens that are in circulation appropriately backed and supported by underlying assets?
- ▶ Become very important due to the rapid rise of stablecoins
 - ▶ Over \$150 billion in market capitalization



Proof-of-Reserves

- ▶ An attest engagement that has rapidly come to the front-burner following the collapse
- ▶ Triggered the selling of a large position of the FTT token by Binance
- ▶ A native token created to facilitate trading on FTX and used to shore up the balance sheet of Alameda Research
- ▶ How were these tokens audited/confirmed/verified?
- ▶ Proof-of-Reserves provides, at least, a partial solution to this problem

Valuation

- ▶ How do auditors and accounting professionals accurately attest to the value of cryptoassets?
- ▶ Not all cryptoassets are widely traded like bitcoin, ether, or certain stablecoins
- ▶ Some cryptoassets are
 - ▶ Newly issued
 - ▶ Illiquid
 - ▶ Unique, such as non-fungible tokens (NFTs)
- ▶ Different marketplaces can have different valuations?
- ▶ What time should the valuations be taken?
 - ▶ End of day?

Cybersecurity

Cybersecurity issues play a key role in the hacks and breaches that have occurred in the space

- 2022 on pace to set records for dollar-cost and # of incidents

How are blockchain-based applications integrated with other technology applications

Do the hot and cold wallets of the organization interoperate correctly with other technology tools

Does the organization have appropriate insurance for these activities?

Financial statement presentation

- ▶ This is perhaps the area that has the most questions for accounting and audit professionals
- ▶ Where should cryptoassets be shown on financial statements?
- ▶ What other blockchain and crypto related data should be reported to investors?
- ▶ Should these disclosures be made on the face of the F/S or the footnotes?
- ▶ How often should these disclosures be made?
- ▶ Lots of open items



Core elements to keep in mind



Every blockchain is different and needs to be monitored individually



Controls will not become less important



Data access and integrity are more important



Audit will need to evolve and change



Clients need to be a part of this conversation

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the frame, creating a modern, layered effect. The rest of the background is plain white.

Talking to clients/customers/colleagues
about crypto

FAQ #1 - How to start

- ▶ Starting with crypto investing is very easy and straight-forward
- ▶ Can be done on a computer/tablet or phone
- ▶ Coinbase is the only publicly traded U.S. cryptoasset exchange in the U.S.
 - ▶ Where I invest
 - ▶ Nearly 100 million customers worldwide
- ▶ Ability to link banking and/or credit card information to allow crypto purchases using fiat currencies
 - ▶ USD to crypto purchases

FAQ #1, cont.

- ▶ What to look for when researching a crypto exchange
- ▶ 1) What is the history of the management team in charge of the exchange
 - ▶ Look no further than QuadrigaCX
 - ▶ <https://www.coindesk.com/learn/the-story-behind-quadrigacx-and-gerald-cotten-netflixs-crypto-king/>
 - ▶ Netflix documentary
- ▶ 2) Is the exchange registered/insured/regulated by a regulator?
- ▶ 3) What are the policies for redeeming crypto back into fiat?
- ▶ 4) What is the history of hacks/breaches, etc.
- ▶ 5) Does this organization have relationships with other exchanges?

FAQ #2 - Is crypto safe?

- ▶ Blockchain and cryptoassets represent a fast moving and rapidly evolving asset class so there is a higher level of risk when compared to other financial instruments
- ▶ Regulatory uncertainty and confusion
 - ▶ SEC lawsuits
 - ▶ State-by-state settlements and fines
 - ▶ Federal ambiguity on regulation
- ▶ Technical complexity can lead to user errors/hacks
- ▶ Also, most crypto investments are not covered by any investor insurance tools as of yet

FAQ #2, cont.

- ▶ Recent crypto hacks include, but are not limited to:
- ▶ Scammers stole \$14 billion in 2021, a 79% increase from 2020
- ▶ <https://www.nbcnews.com/tech/security/crypto-scammers-took-record-14-billion-2021-rcna11192>
- ▶ Criminals have already stolen \$1.2 billion in 2022 alone
- ▶ <https://finance.yahoo.com/news/crypto-hackers-stolen-173940395.html>
- ▶ On April 17th, \$180 million was stolen from the BeanSprout protocol
- ▶ <https://www.coindesk.com/tech/2022/04/17/attacker-drains-182m-from-beanstalk-stablecoin-protocol/>

FAQ #3 - Red flags

- ▶ Red flags to look out for individual cryptoassets or organizations include
 - ▶ Sudden increases in price
 - ▶ Unrealistic returns promised
 - ▶ Social media influences posing as investment advisors
 - ▶ <https://www.outlookindia.com/website/story/business-news-cryptocurrency-frauds-5-red-flags-to-watch-out-for/401375>
 - ▶ Anonymous team or team with no track record
 - ▶ Incomplete or poorly written whitepaper/documentation
 - ▶ Questionable trading exchanges
 - ▶ <https://www.coinspeaker.com/5-red-flags-crypto-investing/>

FAQ #3, cont.

- ▶ 2022 notable hacks include
- ▶ Over \$600 million from Axie Infinity
- ▶ <https://www.cnbc.com/2022/04/15/ronin-hack-north-korea-linked-to-615-million-crypto-heist-us-says.html>
- ▶ Solana has lost over \$300 million
- ▶ Binance smart chain lost \$100 million
- ▶ NFTs have suffered nearly \$50 million in hacks
- ▶ <https://www.itbusinessedge.com/security/blockchain-hackers/>

FAQ #4 - Hot or cold?

- ▶ Big decision around crypto investing is whether to hold crypto information in a hot wallet or cold wallet
- ▶ Hot wallets are online portals that allow real time access and trading of cryptoassets
 - ▶ Convenient
 - ▶ App based
 - ▶ Much easier to hack
- ▶ Cold wallets are specialized hardware devices that are used for longer term storage
 - ▶ Not connected to the internet
 - ▶ More difficult to hack

FAQ #4, cont.

- ▶ Which type of wallet is best?
- ▶ Depends on the goals of the investor in question
- ▶ Trading?
- ▶ Buy and hold?
- ▶ General rule is to keep 10% in a hot wallet and 90% in a cold wallet
- ▶ Allows flexibility for daily activities while keeping bulk of assets off-line and safer from hacks

FAQ #5 - How to plan & protect

- ▶ Generally speaking there are several pieces of advice every potential crypto investor should consider
- ▶ Tax implications
- ▶ Cyber implications
- ▶ What the goal of this investing is?
- ▶ What type of crypto to invest in?
- ▶ How to integrate this into your other investing/business activities?

Thank you!

- ▶ Questions?
- ▶ Comments?
- ▶ Jokes?
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