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A Treasurer's Guide to Becoming Crypto-ready

By Nilly Essaides and Matthew Thomas

The summer of 2022 wrought havoc on the cryptocurrency market; however, the extreme volatility did not undermine corporate treasury's resolve to become more crypto-fluent. While the headlines were disturbing, crypto payments have now become an inevitability for companies and to ignore crypto can mean missing important strategic growth opportunities. Our research shows that at most companies, treasury is leading the exploration of the crypto universe, applying its skills and knowledge of traditional finance (TradFi) to this emerging asset class and payments solution.

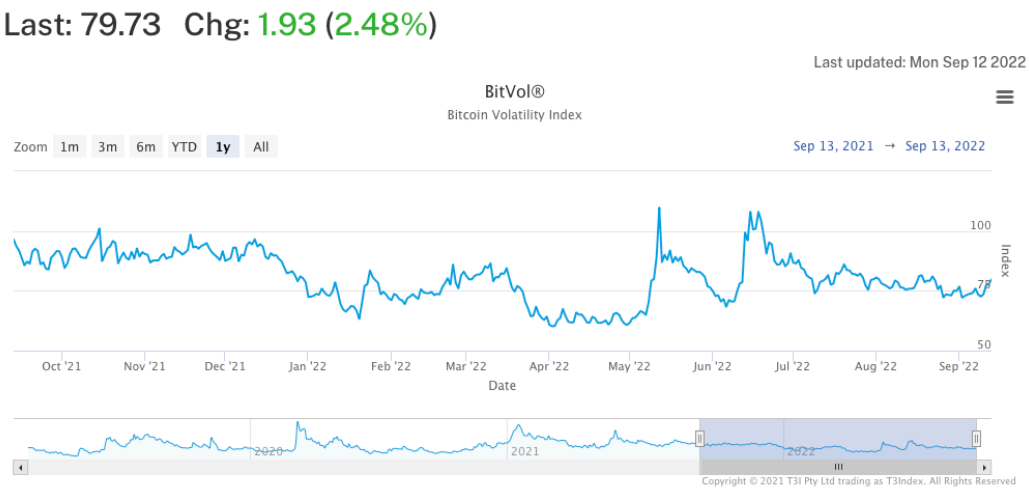
INTRODUCTION

Despite the turmoil in the cryptocurrency market, treasury's efforts to become crypto-ready remain on track.

Looking for the silver lining. The collapse of stablecoin Terra/Luna in late spring of 2022 sent shockwaves throughout the crypto-verse. Sceptics rushed to declare the end of an era; however, the reality is less dire and more nuanced. According to Nicola White, USA CEO of liquidity provider B2C2, "The market turmoil is largely the result of crypto-ecosystem participants prioritizing P&L growth over sound risk management and good governance. The lesson for participants is to choose counterparties carefully and prioritize those that are building for the long term."

Vols on a downtrend. As figure 1 shows (see page 2), volatility in bitcoin prices spiked in May and June. The two main reasons were China's decision to ban crypto-mining and the collapse of Terra/Luna, an algorithmic stablecoin. The latter pulled the rug from under crypto prices. More importantly, the resulting contagion led to some firms defaulting on crypto loans and others losing their financial footing and going bankrupt. However, with the demise of algo-stablecoins, and the ascent of fiat- and US Treasury-backed coins such as the USDC and EUROC, the market is quickly recovering its composure.

Bitcoin Volatility: October 2021 - September 2022



"Many treasury groups are way behind in terms of the back-office operationalization of accepting and paying in cryptocurrencies," said one treasurer. "Digital assets are the future. We just need to introduce them in a safe and controlled manner."

Corporate crypto pioneers are fast-tracking the exploration process. Conversations with dozens of NeuGroup members indicate that treasury groups are pushing ahead, and even accelerating, their efforts to become crypto-savvy. With a handful of exceptions, corporates are not exploring the crypto market for short-term gains. Rather, their focus is on supporting their companies' strategic objectives, e.g., responding to customers' demand for payment in crypto, building a strong infrastructure to support the issuance of non-fungible tokens (NFTs), speeding up cross-border payments, and eventually accessing crypto as a funding source and even leveraging investments in digital currencies to pick up yield. "Many treasury groups are way behind in terms of the back-office operationalization of accepting and paying in cryptocurrencies," said one treasurer. "Digital assets are the future. We just need to introduce them in a safe and controlled manner."

This report, developed in partnership with B2C2, is anchored by interviews with NeuGroup's extensive network of treasury peer groups. It offers practitioner-validated insights into current and future crypto opportunities for corporates; provides sample use cases; and addresses the main pain points from liquidity to technology to credit risk.

THE CRYPTO ON-RAMP

Our research shows that the primary obstacle to entering the crypto market has been lack of internal knowledge and expertise.

Ready. Set. Go. In recent months, we have witnessed greater urgency among our corporate treasury members to climb up the crypto learning curve. Treasurys are forming "SWAT" teams with the mandate of speaking with vendors, fintechs and each other to prepare for transacting in crypto.

"Working through the governance, compliance and overall strategy for entering the crypto and the digital assets space is important to do before competitors and other market participants build out their own," said Matt Thomas, who leads NeuGroup's digital assets working group. "During the bear markets, companies are building, investing and acquiring where they see opportunities."

"Crypto is here to stay and corporates have not been dissuaded from participating in the market, despite recent market events," said Ms. White. "Whether for payments, storing value or unlocking opportunity, institutions are increasingly active in the digital asset class."

Becoming more self-sufficient. Over the years, traditional finance solutions evolved to address treasury's needs, from borrowing to issuing payments. However, "while corporates enjoy the luxury of wide choice in proven end-to-end and off-the-shelf fiat treasury solutions, these do not yet exist for cryptocurrencies," according to B2C2's Ms. White. Therefore, "treasury must take a greater role in building such a complete solution for crypto, even if some elements are outsourced to a banking partner or other specialist provider," she said.

Companies are taking one step at a time. Even crypto pioneers are cognizant of the steep learning curve, typically starting their engagement via a third party. "A third party can handle the volatility in prices, which still requires specialized skills," explained one of our members. "Right now, our opinion is why build something we can rent? So, we use a third party for market access and pricing. However, the rich fees and cost will drive whether to bring in-house," he said. "Crypto is here to stay and corporates have not been dissuaded from participating in the market, despite recent market events," said Ms. White. "Whether for payments, storing value or unlocking opportunity, institutions are increasingly active in the digital asset class sphere."

There are typically four phases of corporate crypto-maturity. Corporate treasury functions are famously cautious; they therefore take an incremental approach to becoming crypto-ready.

PHASE 1: MASTERING THE CRYPTO ECOSYSTEM. Most corporate treasury teams are currently at the knowledge-acquisition phase. In our crypto-related sessions, including those of NeuGroup's digital assets working group, members still have more questions than answers. To speed up their learning, treasury should benchmark against peers, voraciously consume research materials, and collaborate with internal partners such as accounting, tax and legal as well as players in the crypto ecosystem, e.g., OTC dealers, liquidity providers and custodians.

PHASE 2: PILOTING THROUGH A THIRD PARTY. Treasury typically starts its crypto engagement by opening an account with a third party – e.g., a custodian or a broker-dealer OTC provider – that is connected to others in the ecosystem and provides a one-stop solution for safekeeping, trading and transaction monitoring. This enables treasury to experiment with accepting crypto payments without a massive investment in tech and partnership development or holding the cryptocurrencies on the balance sheet.

PHASE 3: HOLDING CRYPTO ON THE BALANCE SHEET. Once treasury becomes more comfortable with accepting crypto payments, investing in crypto and trading cryptocurrencies via an exchange, liquidity provider or OTC broker, they begin to experiment with holding some crypto on their balance sheet as working capital.

PHASE 4: IN-SOURCING THE TECHNOLOGY INFRASTRUCTURE. Finally, treasury organizations that have significant crypto holdings, trading volume and hedge exposures with derivatives are beginning to assemble the necessary technology platforms required to transact on blockchain. At this point, it is important to address any system connectivity issues between crypto trading and other critical processes such as cash forecasting, trade confirmations, accounting/record keeping and risk management.

Finding the right point of entry. Most NeuGroup members are not yet fully active in the crypto space, but some have launched pilots. Below are three real-world examples of their use cases:

ENTRY-POINT #1 Bitcoin Investment. Block (formerly Square) has invested $220 million in bitcoin, or 5% of its cash, to test the crypto waters and learn how to buy/sell crypto to support its payment platform and Cash App. The size of the investment may change, depending on its needs. "We want to remain flexible," said Allison Rossi, global treasury lead. Right now, each bitcoin transaction requires specific Board approval; however, looking ahead, Ms. Rossi considers that it may be better to set a target, e.g., total percentage of cash via a policy instead of asking approval for one-off transactions.

ENTRY-POINT #2 Cross-Border Payments. Some markets, e.g., El Salvador, have already or are considering switching to bitcoin as their national currency or adding crypto as an alternative to their fiat currency. For one multinational company, the question was what may happen if a customer or a vendor asks to pay in or be paid in bitcoin. "We are now studying the implications, so if a customer comes to us and demands to pay in crypto, we are not caught flat-footed," according to a senior treasury professional. "We want to be in a place where we can facilitate internal discussion and spearhead the effort internally to learn what it would take."

ENTRY-POINT #3 Working Capital. An increasingly common pathway to the crypto- verse is issuing NFTs and then creating the necessary mechanism to accept and pay in crypto. NFTs are created using Ethereum's smart contracts. They are a digital asset or collectible that represents rights for various usages, such as community, fans, brand-interaction, points or value, e.g., credit card loyalty points.

NFT buyers want to pay in crypto, and the creative teams that develop them also typically prefer to to be paid in crypto. "You need to look at crypto from a working capital perspective and then decide whether you want to make markets in it or off-load right away to a third party," said a treasury executive. For now, treasury maintains a small amount of working capital on the balance sheet, while converting any excess crypto into dollars daily. Because the business is still small relative to its overall balance sheet, the volatility is not material. But that may change as the NFT market continues to grow.

ADDITIONAL BENEFITS TO BECOMING CRYPTO-SAVVY

While accepting and making crypto payments may be the primary drivers of corporate interest, there are other reasons to consider entering the crypto-sphere.

1. The crypto market is challenging traditional financial systems and offering new technologies and service opportunities. For example, in the crypto market, unlike in TradFi, companies have access to trading 24/7 and 365 days a year.
2. By learning about cryptocurrencies and piloting use cases, treasurers can raise internal awareness and educate management and staff.
3. Corporate Treasury functions that develop crypto expertise today can position their companies to benefit from this fast-emerging space.
4. As the crypto market becomes increasingly institutionalized, it is likely to provide companies with new funding sources, e.g., via crypto loans against custodied digital assets, issuing crypto-denominated debt and the tokenization of the balance sheet.
5. Diversify the supply chain. As crypto gains traction, vendors in other geographies, e.g., hyperinflationary economies, will be more likely to request payment in crypto vs. local fiat currency. As companies reconstitute their supply chains, paying in crypto may allow them to access an expanded vendor base.

TREASURY IN THE PILOT SEAT

At heart, treasury professionals are financial risk managers responsible for managing three key risks: liquidity, credit and currency.

Treasury's core mandate is to ensure sufficient cash is on hand to meet commitments, invest surplus cash to earn interest in a financially sound way and manage exposures to revenues and costs denominated in other currencies. Cryptocurrencies, when viewed as a payment mechanism, sit neatly alongside these responsibilities.

While crypto payments, trading and investing present unique challenges, treasury's existing skill set is highly transferable. Indeed, there is a natural affinity between trading and hedging of crypto and fiat currencies. "Recent events have only highlighted the need to apply traditional finance concepts and tried-and-tested procedures around market risk and credit management to the space," Ms. White explained. This goes right to the heart of risk management and governance in the crypto space, which is an important emphasis for our members who are exploring how to establish a process and a system to accommodate crypto payments.

Establishing a special crypto unit. To speed up the exploration process, many of our member companies have established cross-functional crypto "SWAT" teams, which include representatives from treasury, IT, tax, legal, accounting and the business. The teams' objective is to deliver a road map for operationalizing the entry into the crypto market.

There is no final test or official "crypto certificate" awaiting treasury practitioners who master the topic. "The crypto ecosystem is growing rapidly, and things change every day," noted the leader of a treasury's cryptocurrency team. Added another member: "That means keeping up is an ongoing challenge that will ultimately demand dedicated treasury resources."

STABLE STABLECOINS

The experience with Terra/Luna undermined the credibility of algorithmic stablecoins. However, their demise only made stablecoins that are backed by real assets, like fiat currencies or short-term securities (T-Bills) more attractive. Not only is their price more stable, but these "asset-backed" coins operate within a more regulated environment. For example, Circle, the primary issuer of the USDC, a digital currency backed by US dollars, is a regulated entity, registered as a money service business ("MSB") with the Financial Crimes Enforcement Network ("FinCEN"), a bureau of the U.S. Department of the Treasury. As an MSB, Circle must meet requirements related to anti-money laundering set forth in the Bank Secrecy Act and related regulations. Circle also holds money transmitter licenses in most U.S. states.

Expediting cross-border funds' flow. Trading in stablecoins such as the USDC and EUROC facilitates the flow of funds across borders, specifically from high-inflationary markets or countries with restrictions on repatriation and currency exchange. Companies can also trade other cryptocurrencies for stablecoins as a way of hedging against volatility and price fluctuation. "While banking solutions have improved in recent years, they still are subject to legacy technology. Stablecoins allow market participants to move funds easier in addition to unlocking the ability to trade and settle 24/7," explained Ms. White. They also allow companies to exchange among different crypto currencies.

All in the moderation. In addition, our members are exploring ways to reduce balance sheet volatility by migrating to stablecoins for intercompany loans, as well as a path to un-trapping cash. "My team is focusing on non-algo coins, which are backed by liquid and safe assets like U.S. Treasuries," according to one corporate practitioner. Right now, his company is collaborating with a partner and using the digital yuan. "That helps us figure out some of the internal issues with the transactional side of this, and will lead to internal learning and better understanding," he said.

RELIABLE LIQUIDITY

It is a challenge to create sufficient liquidity pools in a multi-coin market with multiple players and platforms.

"We take the other side of every trade we execute with customers," said Ms. White. "Our core purpose is to be there providing essential liquidity to clients across market conditions when they need us most."

The biggest impact of a lack of liquidity is widening of spreads, which means treasury will need to pay more to get into or out of a trade. One outcome is a decline in price transparency. The implication is that the risk around the trade increases, with knock-on effects on collateral, margin and balance sheet. A dearth of liquidity severely limits which trading strategies can be applied, reducing them to largely just a "buy & hold" approach. By the same token, the availability of liquidity also impacts prices: Greater liquidity is reflected in tighter spreads and better prices for buyers and sellers.

Owning the "book." Even during the height of the 2022 crypto crisis, liquidity remained plentiful in the OTC markets. The turmoil affected exchanges and agency desks primarily because they do not run their own "books." Exchanges and agency desks "can only trade if they can match a buyer and a seller, so in a one-directional market they might not be able to source the liquidity companies need," according to Ms. White. In contrast, a principal-at-risk liquidity providers offer reliability. "We take the other side of every trade we execute with customers," said Ms. White "Our core purpose is to be there providing essential liquidity to clients across market conditions when they need us most."

A risk management reckoning. While there was a lot of talk this summer about a "run on the bank," this TradFi term does not describe the dynamics in the crypto market accurately. The freezing of withdrawals was a function of poor risk management and governance failures, and only a few participants like Celsius took this extreme step. Market participants with comprehensive risk management programs and good governance in place were able to continue to participate as normal.

THE FIVE MOST IMPORTANT CHARACTERISTICS OF A LIQUIDITY PROVIDER

Selecting a liquidity provider is a critical decision, and while agency desks or exchanges trade in a wider variety of coins, they don't necessarily have the market share to support them all. Liquidity providers typically cover fewer coins but provide greater depth of expertise and liquidity across their select set. In addition, the market shock in the early summer has triggered a wave of market consolidation. It's therefore important that companies select counterparties carefully, or risk working with players who may not survive in the long run.

"Corporations should choose a partner who employs sound risk management and efficient settlement," Ms. White recommended, adding that 99% of B2C2's clients' settlement requests are actioned within 45 minutes vs. the T+1, T+2 standard in traditional finance.

What to look for:

1. Comprehensive product offerings
2. Availability of a multifaceted tech stack, e.g., risk management systems, price visibility and a friendly user interface
3. Regulatory position and accreditation, as well as a clear KYC process
4. Size of client base (the larger the greater the ability to internalize, which supports tighter spreads) and performance track record during previous periods of high volatility
5. Certainty of execution and settlement

MITIGATING COUNTERPARTY CREDIT RISK

Frequent reliance on third parties for crypto services means treasury must assess potential credit risk exposures.

"Ultimately, when you get ready to sign a deal you need to spend time examining their [vendor's] tech risk, their capitalization and balance sheet. We want to make sure they are around for longer than three months," a NeuGroup member said.

Treasurers are innately cautious about partnering with vendors when large amounts of money are involved. With a couple of exceptions, our members have taken their first step into the market via a third party because they are not yet ready to make the investments in the technologies and processes required to support crypto payments and in-house trading. "As corporates get into the market more heavily, the biggest issue will be that of counterparty risk mitigation," according to a NeuGroup member. "It is hard to predict which ones [vendors] are here to stay. And it is hard to predict which currencies are here to stay."

MAINTAINING SECURITY

News of crypto hacks is widespread, so securing each link in the financial value chain is critical.

Fraud is not just a crypto issue. One cause of hesitation to enter the crypto market is corporate treasury's concern about the safety of their crypto holdings, as well as the potential for fraudulent crypto transactions. However, it is important to remember that those points of entry for hackers are similar in TradFi as well. The difference is that in the TradFi universe, banks assume the safeguarding role via mechanisms like FDIC insurance, secure systems, transaction tracking and KYC processes.

Measures of confidence. The crypto universe is already providing solutions that address security concerns, in much the same way as in TradFi. For example, using cold storage (the coins are held on a standalone server that is not connected to the internet); and transaction monitoring services like Chainalysis, which provide fraud prevention and risk scoring capabilities, as well as off-the-shelf KYC validation.

It is a cyber risk. At its core, crypto risk is cyber risk, and that is how companies should frame and address it. That means immediately looping in the company's cybersecurity team. Their expertise is critical to understanding and evaluating specific solutions and stress-testing security measures. Also available is cyber insurance for crypto, a solution our most active crypto members highly recommend.

Doing the due diligence. It's imperative that treasury does its homework before selecting an external partner, and our members are placing great emphasis on assessing creditworthiness. Treasury has led a very detailed risk assessment. "Especially because many of the fintechs in this space are start-ups, you need to become comfortable with the risk of using third parties," said a NeuGroup member. "Ultimately, when you get ready to sign a deal you need to spend time examining their [vendor's] tech risk, their capitalization and balance sheet. We want to make sure they are around for longer than three months."

The new era of Centralized Finance (CeFi) means credit risk may be more concentrated in the hands of fewer players. A main concern about crypto counterparts has been their small size and immaturity. However, as the market goes through a period of consolidation, weaker players are being subsumed by larger ones. While that can help bolster the "winners'" balance sheets and spur greater investment, it also raises the issue of greater concentration of risk. Therefore, it is essential that treasury has its own credit-risk evaluation checklist. Here's what members told us treasury should check:

1. **Financials,** including:
   - Profitability
   - Liquidity
   - Exposure to crypto market
2. **Technology,** including:
   - Encryption
   - System architecture
   - Security
3. **Strategic,** including
   - Reputation
   - Business model
   - Quality of leadership
   - Market differentiation
   - Customer base
   - Alignment with internal objectives
4. **Operational,** including:
   - Strength of infrastructure
   - Internal controls and procedures
   - Operational KPIs
   - 24/7 liquidity/trading
5. **Compliance,** including:
   - Quality of relationship with regulators
   - Size of compliance team
   - Culture of compliance
   - Internal controls

NAVIGATING THE CRYPTO ECOSYSTEM

The crypto-sphere is comprised of vendors that offer single or, increasingly, multiple lines of service, including custody, trading, liquidity and transaction monitoring. Bundling services creates economies of scale for the vendor while reducing transactional friction and thus cost and risk for customers. Meanwhile, customers have a better user experience because they can connect to their trading and margin accounts and often custodial accounts, via a single interface.

KEY PLAYERS

Exchanges:

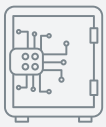
Primarily function like a brokerage account, offering an interface and platform for trading different currency pairs.

Principle-at-Risk Liquidity Providers:

Use their own capital to create liquidity, by offering 24/7 electronic execution and seamless settlement of crypto-to-crypto and crypto-to-fiat spot and derivatives trading.

Agency Desk:

Agency desks match buyers and sellers and do not put their own capital at risk. An agency desk is simply brokering the trade, i.e., they do not hold inventory in the securities/assets they buy and sell.



Custodians:

Third-party "holders" of crypto assets that safely store cryptocurrencies that are not immediately converted into fiat, some OTC dealers, exchanges, and banks also function as custodians.

Transaction Monitors:

These companies monitor blockchains and cryptocurrency transactions to ensure compliance, combat fraud and reduce financial crime.

BUILDING THE TECH STACK

Trading and hedging crypto outside treasury's core system is feasible only if transaction volumes low – scaling up requires an integrated solution.

APIs can be utilized to trade with an exchange or a liquidity provider, or link to a price feed. How quickly companies will begin to reconstruct a TMS equivalent for their crypto flows is unclear; as companies lay the road map for crypto engagement, it is critical they ensure the necessary tech infrastructure is integrated.

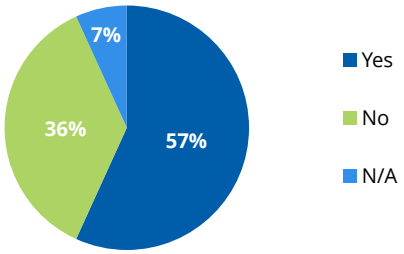
Current treasury management systems (TMS) do not accommodate crypto flows. Thus, pricing feeds, forecasting, exposure identification, credit risk and cryptocurrency risk management are handled manually, separate from the rest of treasury's core activities. Because the processes are largely manual, they are less efficient and can obfuscate the company's overall balance sheet and P&L picture.

As treasury gains experience and looks to reduce fees and tighten governance by bringing crypto activities in-house, it will need to develop automated functionalities to integrate crypto trading with the TMS and ERP, e.g., capture crypto-denominated funds' exposures and hedging in the TMS, as well as incorporating any cash flows into the cash positioning and forecasting processes. Any G/L entries should flow seamlessly to the ERP.

The integration does not have to be a multiyear project. For example, APIs can facilitate connectivity with multiple vendors, which is a more efficient and much cheaper way of managing the front- and back-office. APIs can be utilized to trade with an exchange or a liquidity provider, or link to a price feed. How quickly companies will begin to reconstruct a TMS equivalent for their crypto flows is unclear; as companies lay the road map for crypto engagement, it is critical they ensure the necessary tech infrastructure is integrated.

Corporates should ideally look for (or build) a platform that allows them to view their fiat and coin balances together seamlessly. An integrated tech solution will enable treasury to monitor and adjust risk and credit limits in real time. This is not a new concept for treasury. Companies are already utilizing bank APIs to ingest real-time cash positions. In the May 2022 NeuGroup Cash Forecasting Survey, most respondents reported they already have or are planning on real-time bank connectivity (Fig. 2 below).

Figure 2: Current and Planned Connectivity to Real-Time Bank Balance Data



NeuGroup Cash Forecasting Survey, May 2022

Ongoing access is even more critical for cryptocurrencies because they are inherently more volatile. In addition, because cryptocurrencies are transacted over the blockchain, they move significantly faster between counterparties. A real-time view of pricing and positioning allows corporates to keep up with the pace of the industry and make quicker and more informed decisions. Until the industry matures, it is also possible that the movement of a single asset may cause a ripple effect in adjacent markets, which is also a reason to have real-time visibility and act nimbly when things are changing so rapidly.

SEVEN TIPS FROM CRYPTO PIONEERS

There are so many remaining questions for treasury, and we cannot answer them all here. But we can share some lessons learned and suggestions on the best way to enter the market.

Establish a crypto SWAT team with representation from tax, accounting and legal to simultaneously study the market and the repercussions of holding crypto on the balance sheet. Regulatory issues are paramount to understanding how crypto holdings or trading can impact the P&L and the balance sheet. For example, from an accounting standpoint, cryptocurrencies are considered long-lived assets, so they are held at cost and are not revalued, unless there is the possibility of impairment.

ACTION ITEM: Work with your external auditors, tax advisors, industry groups, regulators and vendors to collect comprehensive information.

Early stakeholder decisions should also include tax, legal, audit, compliance, SEC reporting and IT/CISO teams. "As early as you can, loop in all the different teams," said Block's Allison Rossi.

Get buy-in early and communicate. To quickly come up the crypto learning curve, members recommend bringing in outside subject matter experts as soon as possible. Early stakeholder decisions should also include tax, legal, audit, compliance, SEC reporting and IT/CISO teams. "As early as you can, loop in all the different teams," said Block's Allison Rossi. In addition, it is essential that the SWAT team reports back to management, and the same holds true for employees. "Staff members are going to be really interested as to why you are doing this, so get the messaging right. You're going to get a lot of questions about it. Be ready for debate," Ms. Rossi said.

ACTION ITEM: Avoid using complex terminology and industry jargon when communicating up or down in order to demystify the market and get everyone comfortable and on board.

Loop in IT early in the process. IT teams play an extra special role in both the development and execution of the cryptocurrency roadmap. The market is built atop a unique technology backbone (blockchain), and many of the services are underlined by emerging technologies developed by fintechs that require an expert's evaluation.

ACTION ITEM: Get IT involved from the start, so they can come up their own learning curve in terms of what it would take for the company to bring the platform in-house.

Start small. Just like with the deployment of a new technology or product, treasury functions should initiate pilot programs with limited risk but an opportunity to start testing the market. A member of a crypto SWAT team reported that he opened a personal account to become more familiar with the market. "The idea of doing a proof of concept makes sense," countered another member, "but not by starting with a personal experience, because that may not be transmissible to the corporate side of things, where there are so many more complicated compliance requirements."

ACTION ITEM: Try something; it doesn't have to be a big strategic initiative. Then you can learn from it and leverage that knowledge in whatever direction you want to go.

Focus on establishing internal governance. As we saw above, a critical feature of a trustworthy partner is their internal controls and governance framework. However, even if you choose to outsource, it is important to establish a strong governance structure internally as well. That means outlining clear roles and responsibilities.

ACTION ITEM: Integrate crypto into the company's governance culture. That is not that different from how treasury approaches bank account management, via segregation of duties and execution checkpoints.

"Crypto readiness offers a unique opportunity for treasury to collaborate closely with other parts of finance as it charts the course toward integrating crypto into the company's financial ecosystem."

Do a deep dive into counterparty credit risk. Conducting due diligence on crypto partners is even more important than the typical approach to ensuring financial counterparties' credit worthiness. There are no firm standards or clear oversight, and the market's volatility can have a quick impact on third parties' financial health.

ACTION ITEM: Run through a comprehensive checklist at the initiation of the relationship, but also operationalize more frequent as well as event-based credit reviews.

Negotiate third-party fees: The cost of working through a third party can be high, in some cases as much as 4%. However, according to a few crypto "veterans," fees are negotiable, just like bank fees. "Once you sign the NDA, that's when you begin talking about fees," said one member. The cost breaks down into two general components: 1) Implementation fee (typically around $20K); and 2) Ongoing fees: A monthly minimum; transaction fee or flat fee.

ACTION ITEM: For corporate treasuries that are true market novices, it makes sense to pay the implementation fee rather than trying to build the connectivity on their own.

CONCLUSION

The process of becoming crypto-ready will take treasury some time, not least because change is relentless.

While some treasurers may remain hesitant about launching crypto capabilities, they do not have the luxury of waiting for the dust to settle. The crypto ecosystem is expanding, and in some cases already displacing traditional financial services and markets. While using cryptocurrencies as a means of payment for goods and services is still rare among typical corporates, the forces driving the market's explosive growth are too powerful to ignore.

"Crypto is here to stay," said a member of NeuGroup's Global Cash and Banking Group at a Spring 2022 session. "Crypto readiness offers a unique opportunity for treasury to collaborate closely with other parts of finance as it charts the course toward integrating crypto into the company's financial ecosystem."

According to B2C2's Ms. White, "Blockchain, crypto and the growing universe of digital assets will transform the world of finance. In the short term, institutions may be more cautious, but the opportunities are too significant to be ignored for long." She added, "The need to bridge worlds has come to the forefront and the future will be forged (and won) by those firms who can combine TradFi's proven best practices with the innovation opportunities that crypto offers. "

For treasury, the decision to enter the market and whether to do it directly or indirectly is a matter of risk tolerance. To build confidence, treasury professionals must start with a comprehensive understanding of those risks, including illiquidity, price volatility, security, counterparty credit risk and technology. The consolidation among providers, availability of hedging instruments and the offering of third-party solutions is already tempering corporate concerns. One of our members issued the following call to action: "Treasury should spend time everyday learning. When your CEO or CFO comes to you and says the company wants to start accepting bitcoin, you do not want to be caught off guard."

GLOSSARY

- **Altcoin:** Any cryptocurrency that is not bitcoin.
- **Block:** A group of data on the blockchain. Each block can hold a certain amount of data. Once filled, a new block is created and connected to the previous block, creating a blockchain.
- **Blockchain:** A digital ledger and the base technology for all cryptocurrencies. A blockchain is made up of a series of blocks that create a permanent, public, unchangeable ledger of data.
- **Cold Wallet/Cold Storage (hardware wallets):** A method of storing your cryptocurrency in a physical device, completely offline.
- **Hot Wallet:** A software-based cryptocurrency wallet connected to the Internet. More convenient, but more susceptible to hacking/cybersecurity attacks than a cold wallet.
- **Gas:** A fee required by the Ethereum network to use the system. Paid with the Ethereum (ETH) coin.
- **Txid/Hash:** The identification number for each cryptocurrency transaction.
- **Ethereum:** A blockchain that utilizes smart contracts. Ether (ETH) is the native cryptocurrency of the Ethereum blockchain.
- **ERC20:** A token protocol that sets the standards for how a transaction is completed on the Ethereum blockchain
- **Explorer:** Online public browser that can be used to view details of a transaction including sender/receiver and number of confirmations. Each blockchain has a different explorer.
- **Confirmations:** The number of blocks that have passed since the transaction was added to the blockchain. A cryptocurrency transaction is considered confirmed when it is included in a block on the blockchain. These are processed by the network, or, more specifically, by the miners.
- **Wallet Address:** A unique string of numbers that can hold cryptocurrency. All ERC20 tokens can be held on the same wallet, but other currencies, such as bitcoin, require their own separate wallet.
- **Miner** is an individual in the network who solves cryptographic problems to verify a new block on the blockchain. This is a computational "equation" performed by nodes on the network. If a block is successfully minds, the miner is rewarded with cryptocurrency. Miners create block via proof-of-work.
- **Validator:** The equivalent of a miner but, rather than solve a complex math problem, they are required to hold and "stake" a certain number of coins for a chance to create a new block. Validators create new blocks via Proof-of-Stake.
- **Nodes:** A network of computers that act as keepers and creators of the blockchain ledger. All nodes for a given blockchain are connected to each other and communicate the latest updates to the blockchain. For each blockchain, the node follows a different protocol (i.e., rules.)
- **Public Key:** Your wallet's address, like your bank account number. You could share your public wallet key with others to send and receive money from your account.
- **Private Key:** An encrypted code that allows direct access to your cryptocurrency, like a bank account password.
- Protocol: The specific rules that determine how cryptocurrency and data is created and shared on a given blockchain.
- **Smart Contract:** An algorithmic program that carries out the agreements of a contract given the execution of a certain action, based on its code. The Ethereum network is known for its ability to execute smart contracts.
- **Stablecoin or Digital Fiat:** A cryptocurrency that is tied to a fiat currency or commodity. The primary stablecoins are Tether (USDC) and USD Coin (USDC).

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