

Practical Recommendations for Fiduciaries and Institutional Investors

- **Hype is not a sound basis for an investment case.**

We recommend that fiduciaries continue to apply the principles of prudence, loyalty, and care in their work as an agent of their clients. From this perspective, the mere potential prospect attached to cryptoassets or to the related ecosystem is not in and of itself sufficient as a rationale to invest clients' money into these instruments or projects. Unsubstantiated promises and aspirations do not make for a reasonable investment case. Proper analysis of value, merits, and risks remains necessary for fiduciaries to discharge their role as it is intended. We urge fiduciaries to guard against their clients' fear of missing out (also known as "FOMO").

- **Basic principles of portfolio construction continue to apply.**

We recommend, in line with the teachings of the CFA Program curriculum, that investors continue to take a holistic and strategic portfolio construction view on their investments by balancing short-, medium-, and long-term objectives. This approach is the soundest basis for investment decisions.

- **Careful analysis of value and portfolio benefits is necessary.**

We recommend that fiduciaries provide sufficiently grounded analysis of intrinsic value, volatility, correlation effects, momentum, or technical features of their proposed investment within the overall portfolio context, whether directly into tokens or indirectly through the equity of an enterprise, before they claim that such an investment satisfies their usual standard of care.

- **Intrinsic value should be related to an in-depth understanding of use cases.**

We recommend that fiduciaries who are interested in the fundamental value of cryptoassets conduct an in-depth and rational analysis of the use cases for the tokens, project, or enterprise. Our view at this stage of cryptoasset development is that intrinsic value of cryptoassets has to be related to an analysis of use cases, which is a driver of demand for these instruments. This will require an application of a dispassionate analysis of the business model in question and the economics that are being proposed.

- **Careful analysis of the sustainability of the business model and client acquisition strategy is necessary.**

We recommend that fiduciaries pay particular attention to the potentially circular nature of the cryptoasset project being analyzed, focusing on the intrinsic and distinguishing qualities of the project along with

the client acquisition model. The business model should be sufficiently sustainable organically or on a course to sustainability, as opposed to relying on unsustainable subsidies or unrealistic economics to attract the user base. Otherwise, risks in this area can be very high.

- **Investors need to investigate decentralization claims and the third parties in the value chain.**

We recommend that a reasonable investor investigate the notion of decentralization in relation to the business model of a proposed investment in a cryptoasset project. A fiduciary or investor should have a clear understanding of the value chain in place and the series of third parties involved in the transactions pertaining to these tokens or coins. Such an analysis should lead to a sufficient understanding of the economics of a project and its distribution of benefits.

- **Fiduciaries need to ascertain the custody chain and safekeeping of client assets.**

We recommend that fiduciaries conduct a thorough analysis of the custody aspects related to any cryptoasset project, as safekeeping of client assets is of fundamental importance. The proper approach should be to require the same standard of quality or care as the agent applies to all other assets or to contract with a third party that can provide this quality standard. Asset segregation, ownership rights, IT security, cybersecurity, access, and legal certainty are all points that should factor into this analysis. A good starting point would be to consider the Principles for Financial Market Infrastructures developed by IOSCO and the CPMI in 2012, especially regarding central securities depositories, as we discuss later in this research paper.

- **Fiduciaries need to have a good grasp of the regulatory context and anticipate possible developments.**

We recommend fiduciaries keep a close eye on the evolving regulatory context concerning cryptoasset markets. Regulatory frameworks for this market are only emerging, and it will take time before they are harmonized at an international level. Fiduciaries should conduct their own analysis of whether cryptoassets they are considering qualify as securities or not, depending on local legislation and currently available regulatory guidance. We advise prudence and the adoption of a conservative take on this question for as long as regulatory certainty is not established. In such a context, fiduciaries should make sure they can justify such investments for different client types, whether professional or retail investors.