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NEW RISK MINDSET

CAPITALIZING ON STRATEGIC OPPORTUNITIES IN DIGITAL ASSET INVESTMENTS AND TRANSACTIONS

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AT A GLANCE

We are in the midst of a once-in-a-generation digital transformation in financial markets, money flows, and payments technology. As digital assets proliferate exponentially and the regulatory landscape shifts rapidly, organizations can no longer afford to observe the digital asset universe from the sidelines. To respond to competitive threats in this environment, organizations need to have a strategy that is integrated, flexible and tailored.

But the sheer volume of opportunities and the frenetic pace of change can result in information overload and make it difficult to separate the meaningful developments from less relevant ones. To prevent decision paralysis or costly strategic errors, organizations must devise an intentional digital asset strategy that incorporates a new risk mindset. Armed with a strategic plan that bridges the traditional financial and digital worlds, organizations can seize opportunities while also mitigating risks.

HOW KEY TRENDS WILL IMPACT ORGANIZATIONS' DIGITAL ASSET STRATEGIES

In the current environment, there is no financial or technology business that can afford to ignore digital assets.

A broad array of digital asset and blockchain-based products and services are creating opportunities and threatening existing business models. As digital asset products and services expand and mature, so do the opportunities for strategic M&A and investments. As explained in our recent webinar, among the key trends impacting crypto-related transactional activity are:

- The convergence of traditional finance products and the digital asset infrastructure will accelerate with anticipated regulatory shifts.
- Maturing digital assets markets will increase M&A and strategic transaction activity involving digital assets and blockchain products.
- Cryptocurrencies and digital assets have become a legitimate alternative asset class for institutional and high-net-worth investors.
- Stablecoins are becoming a widely used financial product, increasing revenue-generating opportunities and reshaping B2B and B2C transactions.

There is no one-size-fits-all approach to executing a digital asset strategy. While mergers and acquisitions are one way for organizations to do so, they are not the only ones. There is a broad array of strategic transactions that can be used to execute on growth and digital transformation strategies, including strategic partnerships, investments and joint ventures.

Each of these structures provides different benefits and may be useful in different contexts. These structures can be used sequentially or simultaneously, based on context and specific opportunities.

For a complete toolkit for transactions and investments in this space: Deals in Digital Assets - Mergers, Acquisitions, Investments and Financings for Digital Assets Businesses, Crypto Asset Managers, and Blockchain Protocols.

Overall, organizations must be nimble yet laser-focused on their goals and the competitive environment. Resist FOMO, assess risks, and balance opportunities in an informed and intentional manner.

HOW A NEW RISK MINDSET FOR DIGITAL ASSETS ENABLES ORGANIZATIONS TO EVOLVE AND COMPETE IN CHANGING MARKETS

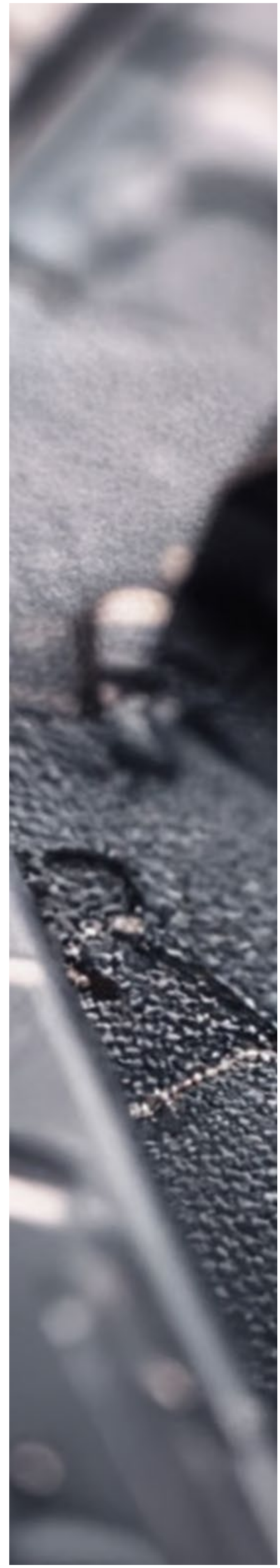
A new risk mindset is a proactive and integrated approach to assessing risk and formulating strategy. Organizations can respond to competitive threats from digital-assets integration into financial markets by adapting this mindset through the following:

ACTIONABLE KNOWLEDGE

To seize on opportunities, organizations must first understand the opportunities. However, given the sheer volume of new products, technological developments, and competitors in the United States and globally, keeping up-to-speed can be an overwhelming, if not impossible, task. The pace of change is so rapid that it can feel like drinking water from a firehose: in addition, not every development will be relevant to a specific organization. It is essential to have up-to-date market intelligence and regulatory insights that are carefully aligned with and tailored for the organizations' specific business goals, sector and strategic priorities.

INTENTIONAL ASSESSMENTS

Not every opportunity is the right opportunity. Ensuring a cultural fit and business alignment is a common challenge with any M&A or strategic transaction. As a result, post-transaction integration is a critical key to success that requires careful planning and deft execution. Accordingly, all organizations involved in these transactions should take post-transaction integration seriously. This is true regardless of whether businesses are merging or merely working together. In all cases, organizations should be thoughtful and intentional rather than reactionary. After identifying a viable digital



product/service that complements the organization’s strategic goals, they should conduct robust preclosing risk assessments and consider post-closing integration strategies, especially if any of the businesses have not been subject to stringent regulatory requirements in the past.

Integration decisions and strategies vary depending on the leadership, industry, related compliance requirements, and stakeholder expectations. In many cases, these strategies must evolve and be implemented over time.

UNDERSTANDING REGULATORY COMPLIANCE CULTURE

When considering digital asset opportunities, organizations must understand the interplay between the evolving crypto landscape and existing financial compliance requirements, including Know Your Customer regulations, antimoney laundering regulations, and sanctions requirements.

Each of these regulations alone is complex and fraught with compliance pitfalls; when combined with evolving and potentially conflicting regulations that apply to digital assets and cryptocurrency, the regulatory landscape becomes even more challenging.

Additionally, an organization may become subject to new regulations following a transaction. Organizations need to understand the regulatory compliance requirements and hurdles before engaging in such transactions so a cost-benefit analysis can be performed.

NEW RISK MINDSET BEST PRACTICES TO MAXIMIZE VALUE IN DIGITAL ASSET OPPORTUNITIES

To realize the value in any digital asset opportunity, organizations should consider the following best practices:

CREATE A DIGITAL ASSET STRATEGIC PLAN

Organizations must be intentional about entering the digital asset market, whether through M&A, strategic transactions or investments. To be prepared—yet disciplined—when opportunities arise, it is important to have a digital asset strategic plan to guide these decisions. Moreover, organizations should regularly reevaluate and update their digital asset strategic plans as their markets and competitive landscape changes.

When preparing or updating a digital asset strategic plan, organizations should be asking themselves key business questions, such as:

- What are our current and potential key customers looking for?
- How are our competitors approaching digital assets integration in financial markets?

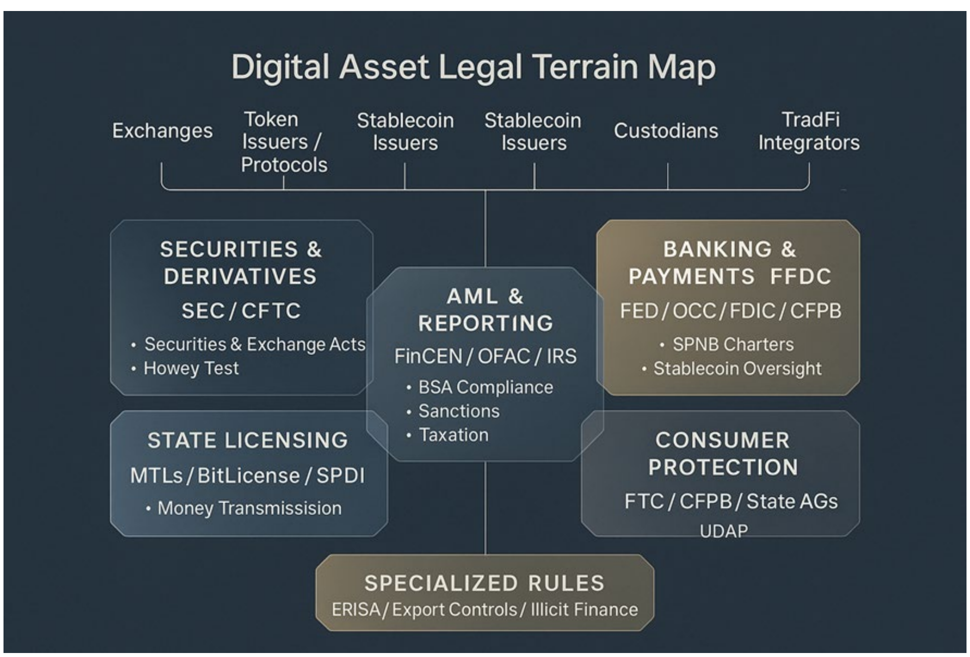
- How can digital assets enable our business goals?
- What new digital assets innovations can we expect in the next six to 12 months?

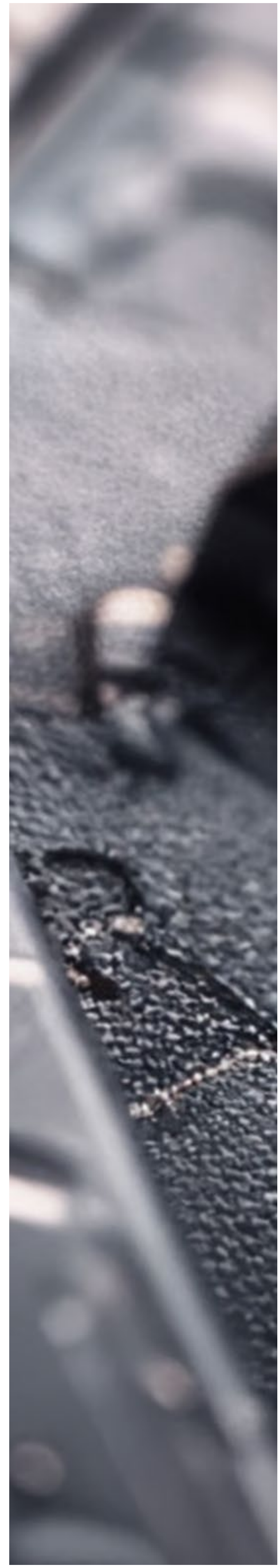
A digital asset strategic plan that addresses these questions will help an organization keep up with the frenetic pace of market change while also facilitating solid business decisions.

DO (OR DON'T DO) WITH YOUR EYES OPEN

The Venn diagram of applicable regulations will continue to be complex as the landscape evolves. What's more, competing interests may clash as businesses struggle to provide innovative responses to market demand for global products and services while also complying with overlapping (and possibly contradictory) regulations. As a result, organizations must be fully aware of evolving, intersecting, and potentially competing regulatory requirements so they can decide which actions to take (or not take).

Though all signs point to a more crypto-friendly regulatory landscape within the United States under the second Trump administration, the timing and exact nature of new regulations are unclear. Moreover, applicable state regulations may be at odds with any potential federal regulations, and because a touchstone feature of the digital asset market is its global reach, a host of foreign regulations also apply. In addition, a wide range of regulations across other subject matters will remain relevant, including those related to financial markets, data privacy, cybersecurity, national security, antimoney laundering, and sanctions. As digital asset markets and transactions cut across borders and time zones, organizations will also need a truly global perspective on regulations.





ASSEMBLE AN ADVISORY TEAM THAT BRIDGES THE TRADITIONAL FINANCIAL AND DIGITAL ASSETS WORLDS

To effectively formulate and execute any business strategy, organizations need a team of advisors with specialized expertise that is tailored for the opportunities and risks in a particular context. In these dynamic markets, there is no place for digital assets tourists. An organization's advisory team should consist of digital asset experts who understand the complex and overlapping dynamics, see potential problems, recommend creative solutions, and are enthusiastic allies of crypto-related technology and the digital asset market. Regular communication with key advisors—both internal and external—can keep decision-makers apprised of developments in a practical and meaningful way.

ENSURE OPERATIONAL INTEGRATION AND THE RIGHT BUSINESS BALANCE

Before embarking on a transaction or product integration, organizations should consult with their digital asset advisory team and discuss specific questions about their goals, capabilities, and limitations. They should also do substantial due diligence to ensure permissibility and feasibility.

Just because a transaction will provide the desired technological capabilities doesn't mean it will align with overall business operations and goals.

If an organization creates products to meet market demand quickly but neglects to address feasibility and integration issues, it could create more problems than benefits. For instance, a software engineer might be able to create a valuable digital asset product, but if it would cannibalize other products or be inconsistent with data-privacy restrictions (or other compliance requirements), the product could ultimately do more harm than good for the organization.

ADDRESS VALUATION CHALLENGES WITH CREATIVE DEAL STRUCTURING

A common challenge in any M&A or strategic transaction is valuation, and these issues are exacerbated when digital asset business models are volatile and digital assets themselves may be illiquid. Any organization considering a transaction in this space needs to ask itself:

How do we ensure we're getting value out of this transaction?

There are many variables and keys to unlocking and realizing value, so answering this question can be anything but straightforward.

LOOK TO DEAL TERMS AND STRUCTURES TO MITIGATE RISKS AND BRIDGE VALUATION GAPS

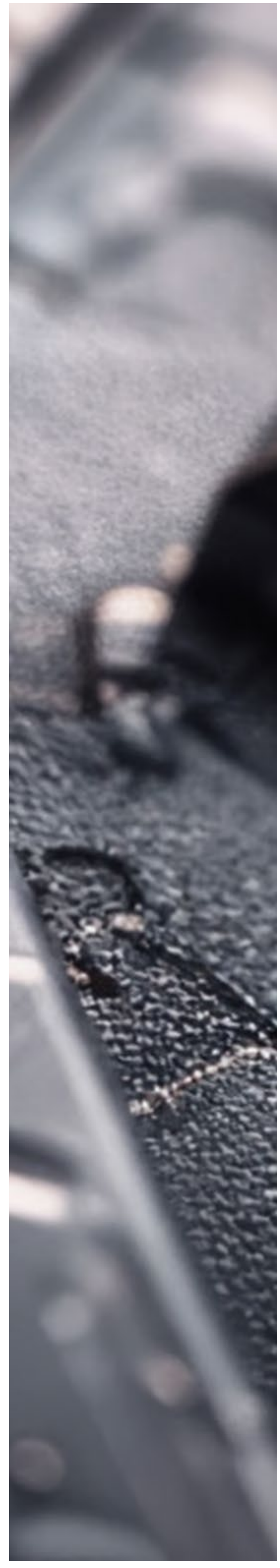
Organizations embarking on deals involving digital assets—in particular, those involving asset managers or “crypto” as an asset class—should consider how deal terms such as earn-outs, revenue-sharing arrangements, and value-based closing conditions can advance their business objectives and mitigate risks. For instance, a digital asset-based deal may include terms that tie contingent payments to less volatile metrics than crypto-asset prices.

For more information on ways to bridge valuation gaps in this space: Crypto Asset Management: Expansion Roadmap for Managers and Investors (Part 1).

A ROBUST DIGITAL ASSET STRATEGY REQUIRES A NIMBLE, INTENTIONAL, AND INFORMED APPROACH TO RISKS AND OPPORTUNITIES

Digital assets opportunities can be complicated and daunting, but they also present some of the most exciting and lucrative market opportunities in recent memory. Developing a deliberate digital asset strategy can enable organizations to remain—or become—industry leaders by seizing opportunities and mitigating associated risks. When creating a digital-assets strategic plan, organization leaders must be clear-eyed, focused, and armed with the most up-to-date and relevant information.

However, staying apprised of the rapidly shifting landscape and web of regulations is impossible to do alone. Organizations need a team of advisors—among them, legal, technology, policy, regulatory, and data privacy experts—who have a broad and deep view of the digital asset landscape. By combining legal, regulatory, technological, and business advice, organizations can make well-informed decisions that enable them to capitalize on business opportunities utilizing this transformational technology.



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