Cash management

Dealing with the digital asset dilemma

By CorporateTreasurer Editors | Mar 16, 2021

Considering whether to go down the cryptocurrency path poses key questions and potential issues for corporates that treasury teams are grappling with as sentiment starts to shift.

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Lower-for-longer interest rates coupled with fears of inflation are making it more difficult for some companies to justify keeping their same allocations to cash.

With bitcoin increasingly seen as a suitable alternative for storing surplus cash, corporate treasurers need to weigh up whether to adopt cryptocurrencies as a viable corporate reserve asset.

A learning curve

There is little debate in India, it seems. A *Reuters* report, for example, says the government is looking at banning cryptocurrencies in the country – a move that would mark the first of its type by a global economy.

Elsewhere in Asia, the decision for treasurers remains a tricky one. Inevitably, cryptocurrency plays a unique role as an asset class given it was invented by cryptography and developers, and is still largely traded by an audience of individuals.

As a result, cryptocurrencies trade on largely unregulated exchanges, while regulated entities will need to use a third-party regulated broker or invest through regulated products like BTC futures or the new Canadian Bitcoin ETF.

"Choosing to handle crypto-assets directly will deliver the most control to corporate treasurers, but comes with security, operational, and price and liquidity risks," explains Anthony Foy, chief executive officer of Qredo, a cross-chain protocol for asset managers and traders active in the digital asset markets.

Finding the right fit

As a cryptographic asset controlled by a string of code, bitcoin doesn't slot neatly into traditional treasury management systems.

According to Foy, much of the existing infrastructure for digital asset custody was designed for individuals securing personal funds. "It is not necessarily suited to institutional needs of safeguarding, compliance, reporting and access control," he says.

For example, there isn't typically the functionality to support traditional treasury functions such as cash forecasting, risk management, transaction reporting or hedging using traded products.

Instead, a typical institutional crypto setup would involve keeping the majority of funds in cold storage, suggests Foy. "This keeps private keys offline where they are secure but difficult to access. Day-to-day working capital is then kept in more accessible hot wallets which carry significant operational and security risks."

The challenge is that moving funds on-chain between hot and cold wallets, or between multiple custodians or corporate departments, can be subject to high network fees and delays from limitations of the underlying blockchains.

At the same time, monitoring the flow of assets and managing working capital is often achieved with simple solutions like spreadsheets which carry operational and price risk. "There is also no way to track transactions for compliance and governance needs, easily retrieve an audit log, or get live reliable data on transactions to perform end-of-day reconciliations," says Foy.

Similarly, there are no easy ways to automate workflows for tasks like reconciliation, and no way to get full visibility across different holdings. This all makes it tricky to manage capital and risk.

Finally, flipping funds back to cash to actually pay bills and deal with the rest of the non-crypto world can also involve high fees and complications.

A delicate balancing act

For corporate treasurers to make this process work smoothly will depend on them assessing the suitability of their individual day-to-day requirements to the benefits crypto-assets can offer.

"Generally, the market hasn't really provided a viable solution for an end-to-end treasury solution for crypto yet," explains Foy.

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