



MC BORRELLI
ADVISORS
LIMITED

STAKING – COMPLIANCE STAKES

SPEEDREAD

Staking has become a strategic revenue stream for firms operating in the cryptoasset sector in addition to their customers.

Providing or using a staking service, regardless of its materiality, does not come without certain drawbacks and obligations (e.g. tax compliance).

These must be subject to a comprehensive assessment to understand the associated compliance risks and identify what infrastructure should be implemented.

In this note, we answer the following questions:

1. What compliance risks are associated with staking?
2. What regulatory considerations do I need to be aware of?
3. What do I need to do?
4. How can we help?

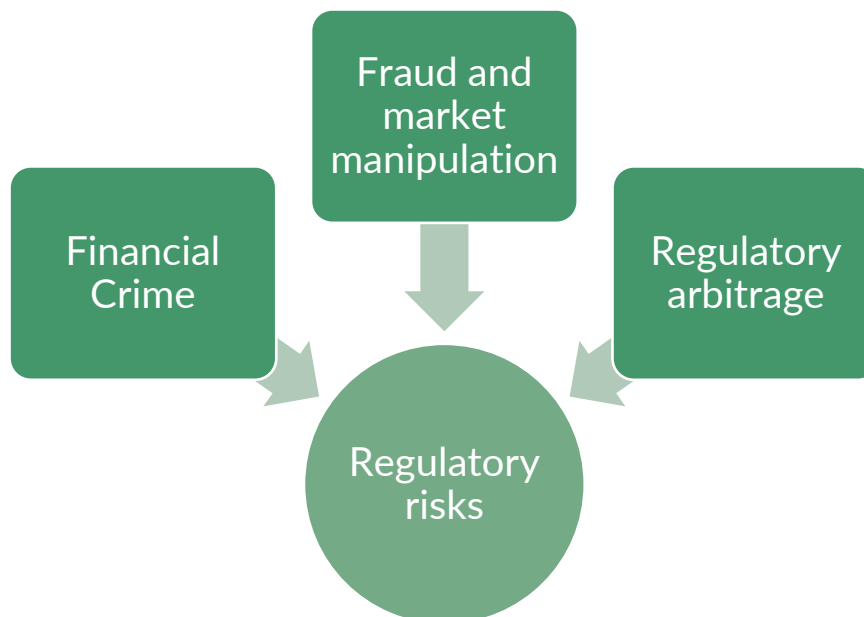


WHAT COMPLIANCE RISKS ARE ASSOCIATED WITH STAKING?

Regulatory risk, which is the risk of not complying with the regulatory guidelines, requirements and expectations. As staking is an activity primarily enabled by decentralised finance (“DeFi”).

Malicious actors can use DeFi to engage in illicit activity or to evade regulatory obligations, exposing firms (and their customers) to an intolerable level of risk.

On this point, staking gives rise to: (a) financial crime; (b) fraud and market manipulation; and (c) regulatory arbitrage risks, all of which fall under the headline risk category.



WHAT REGULATORY CONSIDERATIONS DO I NEED TO BE AWARE OF?

Multiple factors are at play here, such as what trading strategies are used, the types of assets invested in and the categories of firms involved in the transaction.

For example, fund managers seeking to build investment strategies based on DeFi by staking in the ecosystem will have an impact on common goals for financial regulation (e.g. market efficiency and integrity, capital formation, financial inclusion, prevention of illicit activity, safety and soundness and financial stability etc.).

Financial regulation for staking remains nascent, but there are certain policy actions for DeFi being considered by regulators that are of relevance, including:

- **Prohibitive measures:** prohibiting certain activities (e.g. restriction on staking for certain trading strategies).
- **Licencing:** imposing licensing requirements to address associated risks (e.g. holding of assets).
- **Limited licence frameworks:** obtaining licences of limited scope or under size (e.g. restriction on staking of certain types of cryptoassets).

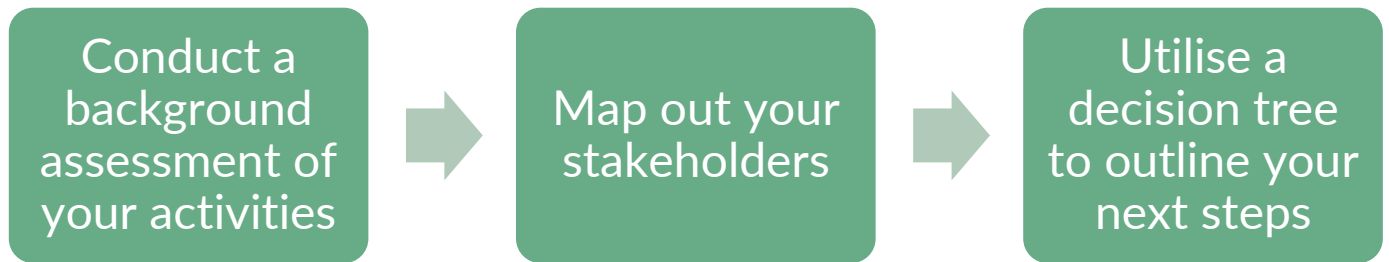
WHAT DO I NEED TO DO?

First, work with us to conduct an internal policy and regulatory evaluation of all of your services involving staking, not just those linked with DeFi, as a starting point.

This constitutes a good starting point to identify which regulations apply and what is required to ensure compliance.

We recommend the following process to get started.





HOW CAN WE HELP?

Our services (e.g. compliance advice, training, compliance audits and risk assessments) are supplied to cryptoasset ecosystem actors for all activities across all of the industry segments, particularly the Investing segment.

Our clients benefit from comprehensive compliance coverage of the United Kingdom regulatory perimeter alongside an unmatched understanding of multiple domains of financial regulation, such as securities, derivatives, exchanges, investment management, bank supervision, financial crime and risk management.

WHO ARE WE?

MCBorrelli provides you with crypto compliance as a service.

At MCBorrelli we have combined decades of experience in financial regulation which has built the foundation of our understanding of the way that crypto is regulated and looks ahead to future regulation.

Our skill and experience mean that we can give you the crypto compliance service that you need.

We will work with you to identify the relevant issues, identify the best solution and then implement that solution. And along with that we will bring you up-to-date training and audit services. For all your staff and for all parts of your business.

For a **FREE CONSULTATION** email mb@mcb-ltd.co.uk

