

Crypto Industry Principles

Release 1.0

A Proposal by

The Wall Street Blockchain Alliance (“WSBA”)

We are proposing these “Crypto Industry Principles” for consideration by all industry segments. These principles are foundational statements of best practices, rather than rules for the crypto asset industry. We welcome participation by all market participants and collaboration with other industry bodies and stakeholders.

This proposal is a “living” document, reflecting evolving events and circumstances, and we intend to elicit ongoing input from all industry participants.

Bullet points under one heading may apply to other categories and should be read with that in mind.

For the purposes of this document, “customer” shall, in context, include all relevant industry stakeholders noted below, including but not limited to customers, custodians, users, third-party providers, market participants, counterparties, vendors, platforms, exchanges etc.

Nothing in this document shall be considered accounting, investment, legal, regulatory, or tax advice.

Responsible Market Participants should:

GENERAL PRINCIPLES
<ul style="list-style-type: none">• Adopt and apply high standards of conduct and principled policies when dealing with customers.• Segregate customer assets from the enterprises’ and related entities own assets.• Provide customers with continuous access to their account information.• Pursue self-regulation and promote industry standards so that customers receive an equivalent measure of protection associated with those regulated activities most closely aligned with the equivalent promoted activities.• Enforce prudent AML/KYC and CIP policies, and prohibit self-dealing, front running, wash trading, and other manipulative practices, as applicable.• Understand that the Crypto Industry Principles are foundational and may apply

differently to different industry participants based on the manner in which such participants operate in the space. The intent is to elevate overall conduct, efficacy, safety, and transparency for all market participants, particularly in instances in which regulatory oversight does not currently apply.

CUSTOMER RIGHTS

- Commit to providing full, fair, and transparent terms with all customers and lower levels of risk when dealing with retail customers.
- Provide customers with clearly defined and unalienable rights that govern the entire customer relationship.
- Disclose all terms, costs, and risks up-front regarding customer transactions, as well as the overall conduct of the business, operations, and management, and supplement disclosures as needed.
- Provide clear and unambiguous disclosures to customers regarding ownership and title of all customer assets.
- Provide clear and unambiguous instructions to customers concerning how to terminate relationships with industry participants.
- Provide clear information regarding remedies and recovery of damages, as a part of a customer rights policy.
- Shall honor and not disclaim legal duties that may reasonably apply.

COLLATERAL MANAGEMENT

- Provide periodic disclosures of:
 - Customer assets held directly or through intermediaries, including general risk assessment related to such assets.
 - Uses or permissible/potential uses of customer assets, and related customer disclosures.
 - Percentages of capital relative to total customer assets and customer assets hypothecated or otherwise utilized.
 - All lending, staking, or other services being offered to customers, and disclosures of associated risks.
 - All collateral requirements and all controls in place to manage such requirements.
 - Segregation of customer assets with qualified custodians.

CYBERSECURITY

- Employ continuous, reasonable, and appropriate security and cyber-resiliency practices in keeping with risk profile and scale.
- Keep records of implementation and test results regarding required security/privacy policies.

- Benchmark and update practices against market practices for like-size and kind of enterprise.
- Conduct and document reputable third-party cybersecurity audits, in keeping with best practices of projects and/or services prior to launch.
- Maintain and document ongoing certifications with reputable security standard(s).
- Commit to disclosure, as required by relevant authorities, of collection, storage, and processing of KYC/AML and PII data gained directly or indirectly from users.
- Provide timely notice of emergent security issues, including but not limited to exploits, actual breaches, and all similar issues.

CUSTODY / SEGREGATION OF ASSETS

- Provide clear and concise disclosures of all terms of service, customer rights, and how customer assets are held, owned, and used.
- Provide regular and independent verification of all customer assets and accounts.
- Disclose all segregated or omnibus account arrangements relevant to customer assets.
- Disclose the legal capacity in which any customer assets are held, as well as all uses of those customer assets, including, but not limited to, for rehypothecation or margin.
- Prepare regular and ongoing independent audits by certified third parties and share such reports with appropriate parties.
- For omnibus accounts, maintain full reserves in an amount at least sufficient to cover obligations to customers, in corresponding cryptoassets of like kind and amount or, alternatively, on an aggregate basis, in permitted investments.

SOLVENCY & LIQUIDITY

- Raise sufficient capital and maintain sufficient liquidity to protect their solvency during difficult periods (such as during a “crypto winter”).
- Adopt a risk management program designed to mitigate risks during challenging market conditions and firm-specific difficulties. Some of these risks may be related to operations, capital, customer fund segregation, and market-driven events.
- Pay special attention to any off-balance sheet or related-party transactions that may have an impact on solvency.
- Separate customer funds from any underlying solvency risk. Implement policies and procedures designed to ensure that customer funds are held separately from the firm's and related entities' own accounts, segregated, and labeled as belonging to customers.
- Promptly notify all customers/investors and any applicable regulators of any significant liquidity events, solvency events, and other material events.
- Develop written strategies as to how they will respond to de-pegging of derivatives risk (including liquid-staked products), counterparty failures (including failures related to lender-funding), significant increases in redemption requests, devaluations in assets, and loss of functionality of protocols.

RISK MANAGEMENT / COMPLIANCE

- Comply with applicable international anti-money laundering standards, including “know your customer” (“KYC”) requirements with respect to customers counterparties, and service providers.
- Regularly review transactions for signs of suspicious or manipulative activity, utilizing appropriate resources.
- Regularly review compliance policies and procedures using appropriate resources to confirm effective implementation.
- Verify that applicable books and records, including but not limited to financial records, are created, and maintained in accordance with applicable regulatory requirements and/or best practices.

FINANCIAL INFORMATION

- Regularly prepare financial information that fairly presents the financial condition and results of operations, in accordance with prevailing accounting standards, consistently applied.
- Prepare all such financial information in good faith and in a commercially reasonable manner.
- When appropriate, disclose all material information in financial reports or other reports/disclosures that would be reasonably necessary for users and investors, as applicable, to assess risk.
- Clearly disclose and consistently apply valuation methods and pricing sources used in preparation of all financial reports, as well as any changes to noted valuation methods and pricing sources.

MANAGEMENT

- Institute separate management control over trading, custody, and lending activity involving customer assets.
- Institute [one or more] management team[(s)] of appropriate size and expertise, across all executive roles, as appropriate, in relation to the size and complexity of the applicable business(es).
- Disclose current regulatory status of the businesses in all jurisdictions in which it conducts business or in which its customers are located.
- Establish a board of independent directors comprising individuals with appropriate diversity of skills and experience to address the risks facing the business.
- Empower such board to require management to prepare and report to such board, on a recurring basis, concerning company enterprise risk management and internal control and compliance programs.

DISCLOSURES AND CONFLICTS OF INTEREST

- Develop disclosures as required by law, which should be provided in a clear, conspicuous, and concise manner (e.g., in a separate e-mail disclosure rather than in terms of service or a click-through agreement).
- Establish and implement a conflicts of interest policy that elevates the supremacy of customer interests.
- Provide clear disclosures to customers of any and all conflicts of interest and any material related party transactions.
- When onboarding customers, provide customers with a short, concise summary of:
 - All fees payable to the intermediary or related parties of the intermediary that could be borne by the customer;
 - Types of additional fees that may be charged by third parties in connection with the services;
 - When custody is involved, a clear statement of the legal owner of the assets and whether the accounts would (or should) be exempt from bankruptcy procedures and in what form (i.e., native asset vs. cash equivalent);
 - Whether there are fiduciary duties under applicable law, and if so, the scope of such duties;
 - Risks associated with the platform and the investment; and
 - Other areas in which the interests of the intermediary may diverge from the interests of the customer.
- Obtain prior written approval by the customer before the utilization of customer funds by any related party or third party. Any request for such a customer approval should be accompanied by a concise, yet meaningful, disclosure of any related parties that may utilize the funds, the risks of such utilization and, if to be used by a related party, how the funds may be used.
- Make available at all times, upon request, to customers their customer agreements (including prior versions of terms of service), and upon any changes to terms of service, provide customers with notices and copies of new terms.
- If custody, clearing, market making, or similar services are provided by related parties, provide the customer with the authority to either withdraw funds or revoke the related party's ability to use the customer's assets.

Primary Authors

- Alice Albl – Associate, **Wall Street Blockchain Alliance**
- Nicholas Curley - Associate, **Winstead PC**
- Gavin Fearey - Of Counsel, **Winstead PC**
- Sonia Goklani – Chief Executive, **Cleartrack**
- Renuka Gupta – Head of Regulatory, **Oasis Pro Markets**
- Joshua Ashley Klayman - U.S. Head of Fintech/Head of Blockchain and Digital Assets, **Linklaters LLP**
- Linda Lerner - Partner, **Halloran Farkas + Kittila LLP**
- Dan McAvoy – Shareholder, **Polsinelli PC**
- Greg Murphy – President, **GenBlock Financial**
- Ron Quaranta – Chairman, **Wall Street Blockchain Alliance**
- Erin Ross - Partner, Chief Operating Officer, General Counsel and Chief Compliance Officer, **Hitchwood Capital Management LP**
- Stephen Rutenberg - Shareholder, **Polsinelli PC**
- Tiffany Smith – Partner, **WilmerHale**
- Jessica Stumacher - Director of Blockchain and Digital Asset Services, **EisnerAmper**
- David Wysoki - Outside GC to VCs / Funds, Tech, DeFi, NFT, Crypto Projects

Participant Antitrust and Competition Statement

All Participants (including the WSBA) and Partner Organizations (collectively, the “Participants”) of this Crypto Industry Principles Initiative (the “Initiative”) must at all times be aware of and comply fully with their responsibilities under applicable competition law. This requirement to comply shall apply in the context of any meeting associated with this Initiative, as well any social environment or public discussions regarding this Initiative, or any written communications, as may be appropriate.

It is the sole responsibility of Participants involved in this Initiative to ensure that at all times they understand and fully comply with their legal responsibilities.

Participants must not disclose or discuss any commercially sensitive information in violation of any competitive rules or laws.

If any Participant has any concern regarding the nature of any discussion or any relevant written communications between any Participants, whether in formal or informal meeting, they agree to immediately contact the Wall Street Blockchain Alliance at info@wsba.co with details of their concern(s). All such concerns reported shall be treated with full confidence and investigated as needed. Participants are encouraged to report said concerns to their appropriate, respective legal counsel or advisor