

Regulatory Readiness: Paving a Pathway for Growth in Crypto



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Executive Summary

To live on the front lines of the new economy, you have to be ready for anything regulation throws your way.

Cryptocurrency represents a transformational change in financial markets. Cryptocurrencies are now held by one-in-five Americans. At the same time, multiple regulatory bodies across geographies are introducing new rules and restrictions at an equally rapid pace.



• **\$2.5T**

According to Investopedia, as of November 2021, cryptocurrencies accounted for 7% of the world's money.

Companies are making moves into cryptocurrencies despite a pervasive lack of clarity around regulation and compliance. This uncertainty around cryptocurrency regulation and compliance poses real challenges and ultimately costs to growing business.

Business professionals responsible for compliance are working ahead of new and continuously changing regulations, managing a situation that is both high-stakes and unpredictable and they're facing considerable gaps in understanding among their internal and external stakeholders.

There is a need for and understood benefit of external help, such as external consultants, partners or software, for regulation and compliance solutions to stay up to date, stay compliant and respond to regulators.

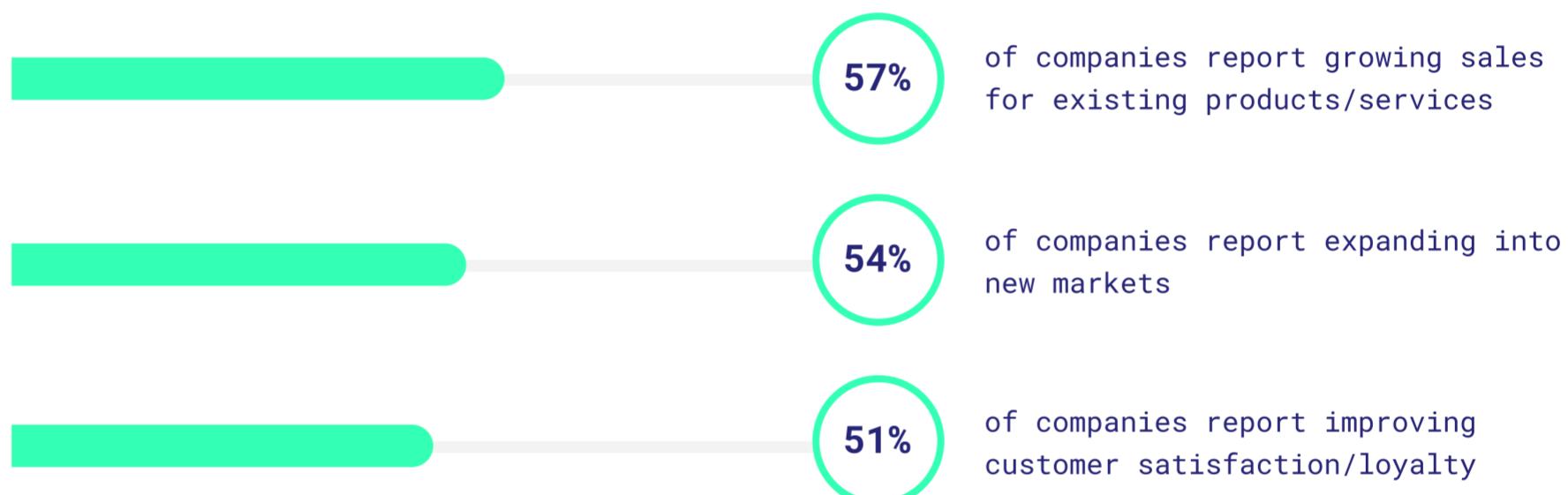
To explore this opportunity for businesses, Fyllo commissioned The Harris Poll to conduct a study among approximately 200 compliance leaders in Cryptocurrency and Financial Services to understand the state of the current regulatory and compliance environment and the solutions sought for leveraging this ever-evolving facet of their business.

Overcoming Barriers to Growth

Cryptocurrency and financial services companies are moving forward with growth plans despite widespread uncertainty around regulation and knowledge gaps among stakeholders, regulators and customers

The focus on growth is evident with almost all Crypto/FinServ compliance influencers recognizing their company is trying to grow to keep pace with the crypto industry so they can be the industry leader (98% and 96% agree, respectively). Specifically, the majority report their company's goals around crypto in the next five years include growing sales for existing products/services (57%), expanding into new markets (54%), and improving customer satisfaction/loyalty (51%). This aggressive focus on growth is further demonstrated by their willingness to work within the fog of regulation with more than four in five agreeing that their company is willing to release a new product/service even if policies and regulations that may impact the product/service are not finalized yet (85%) or their company is willing to expand into the cryptocurrency industry even if regulations are not settled yet (82%).

INDUSTRY GOALS AROUND CRYPTO IN THE NEXT FIVE YEARS



46%

of companies report that compliance/regulation is one of the biggest barriers to their current business goals

98%
IN CRYPTO

92%
IN FINANCIAL SERVICES

believe it's important to work with each other to meet their company's goals in the next 5 years

Additionally, compliance influencers in the two groups acknowledge that their company will need partners in adjacent industries — 92% of compliance influencers in crypto and 98% within financial services believe it's important to work with each other to meet their company's goals in the next five years.

The focus on growth goes hand-in-hand with the need to further educate the larger population about cryptocurrency. Specifically, three quarters (75%) report that one of the biggest barriers to their company's five-year cryptocurrency goals is stakeholders not understanding cryptocurrency — 59% reporting customers not understanding cryptocurrency and 51% reporting regulators not understanding cryptocurrency. Many cryptocurrency compliance influencers include education about the industry as part of their company's five-year goals, in particular educating stakeholders (66%) — either educating the market (44%) or educating regulators (44%). These business goals around education may be informed by the fact that at least three in ten reports that regulators and policymakers lack of understanding of the industry (39%) or financial services regulators being ill-equipped to regulate the industry (31%) are specific challenges in the cryptocurrency policy and regulatory, compliance environment.

In addition to public education, other barriers exist to achieving business goals. Almost half (46%) report that compliance/regulation is one of the biggest barriers to their current business goals followed by almost a third (32%) who report that internal support/buy-in and money/funding are one of the biggest barriers. These barriers bolster the need to educate the stakeholder ecosystem (including the public, regulators, internal stakeholders and potential investors) about cryptocurrency.

The Regulatory Environment Is In A State Of Flux

48^{*}

of crypto compliance influencers believe the environment is very or somewhat unpredictable

Today's cryptocurrency policy, regulatory and compliance environment is defined/dominated by uncertainty and unpredictable changes. To complicate matters, the cryptocurrency environment is being driven by a wide range of challenges versus a single issue.

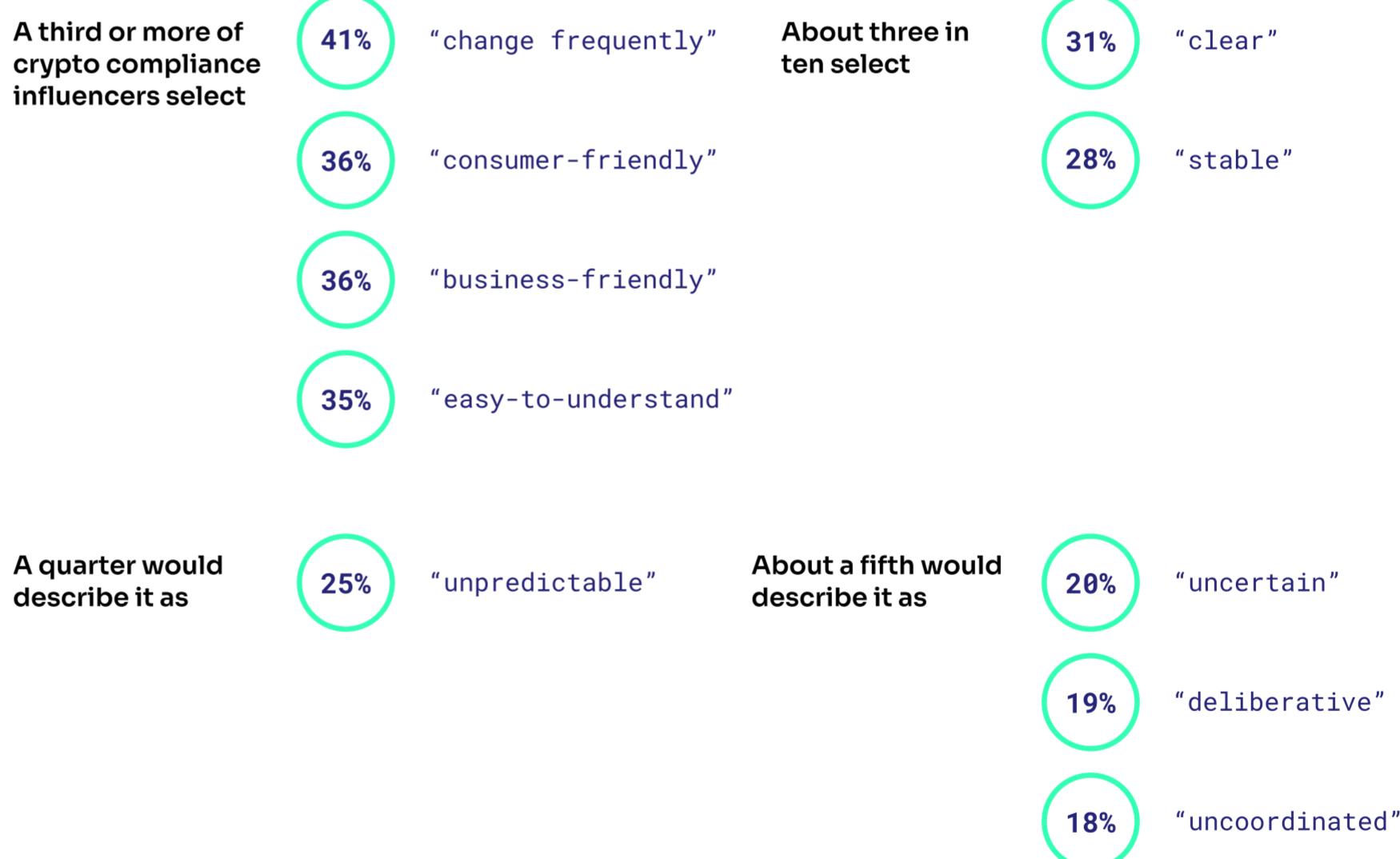
The current cryptocurrency policy, regulatory and compliance environment is described with a wide range of adjectives, but the positive descriptions do not stand out from the crowd.

A little less than half (48%) of crypto compliance influencers believe the environment is very or somewhat unpredictable.

Digging deeper, some crypto compliance influencers indicate that "fragmented ownership of authority" (33%), "change frequently" (31%), or "lack of regulation" (30%) are specific challenges in the cryptocurrency policy, regulatory and compliance environment.

With this context of the cryptocurrency policy, regulatory and compliance environment, it's no surprise that the majority agree that their company is more worried about uncertain policies (72%) or violating regulations (69%) than growing revenue.

WHEN ASKED TO SELECT WORDS TO DESCRIBE THE POLICY, REGULATORY AND COMPLIANCE ENVIRONMENT



Situational Awareness: Researching Crypto Regulations and Compliance

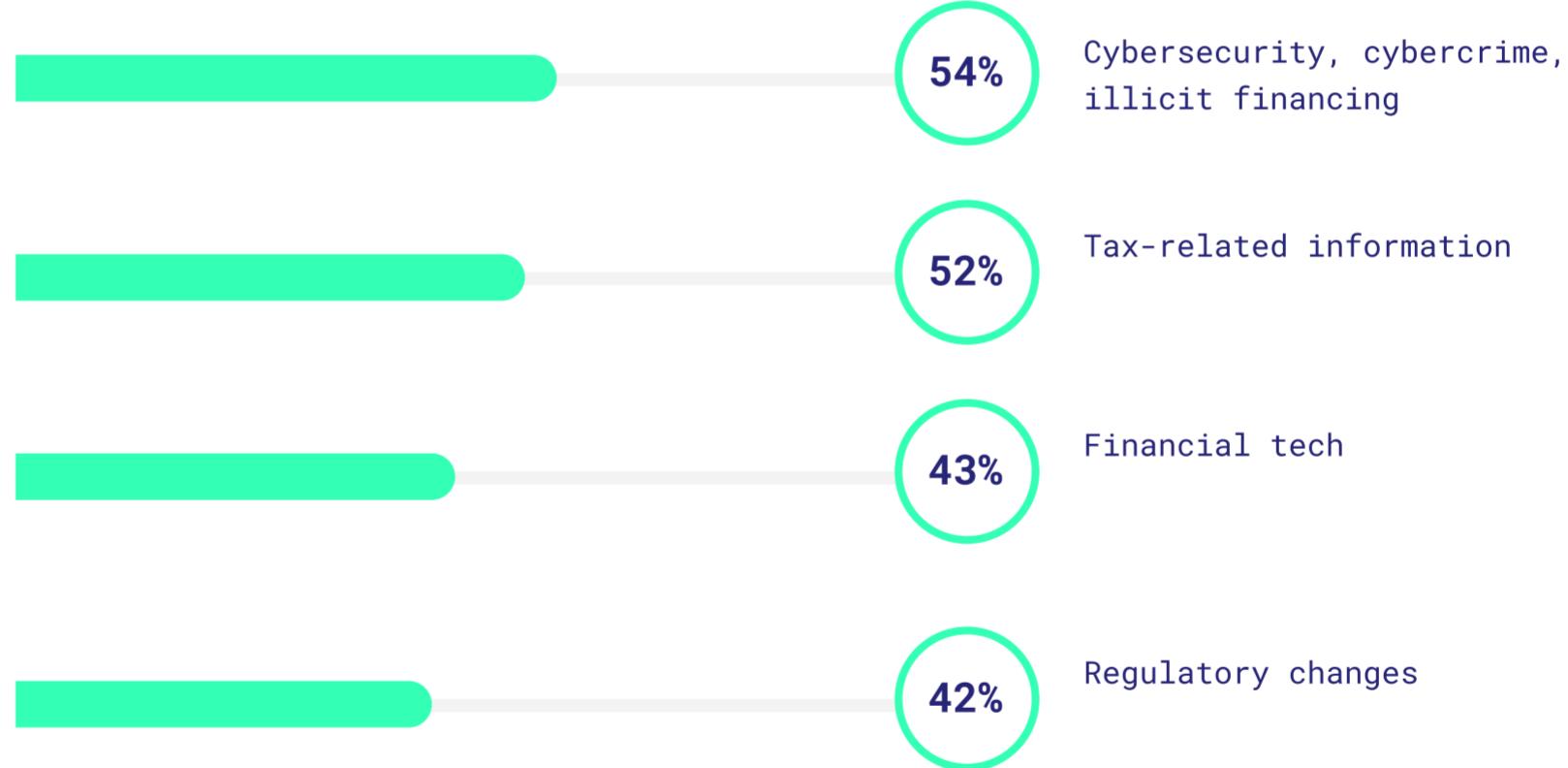
Crypto compliance influencers report that their companies are looking for a wide range of situational awareness; most often related to cybercrime, taxes or fraud/money laundering, when researching cryptocurrency regulations and compliance.

Their companies are looking for regulations/compliance information at least weekly and are turning to multiple U.S. and international agencies as well as using paid sources/tools to help with their research.

Looking at broader situational awareness, the most common types of information compliance influencers research are cybersecurity, cybercrime, illicit financing (54%), tax-related information (52% – either tax compliance for customers (43%) or tax rates/taxation on crypto income (33%)), financial tech (43%) and regulatory changes (42%). Information about more specific aspects of cryptocurrency is less often sought – license fees and requirements (35%), conversion rates (34%), money services (34%), smart contracts (32%) or Bitcoin ATMs (30%). When focusing on types of regulation, half or more companies look for online fraud, money laundering and terrorism (76%); Know Your Customer (KYC) rule (62%); anti-money laundering (62%) and Bank Secrecy Act (50%) when researching crypto regulations and compliance.

This need for situational awareness in the evolving and decentralized policy and regulatory environment is reflected in the wide range of sources of information with half (50%) citing the U.S. Securities and Exchange Commission as the most common source of information and 39% who cite a source outside of the U.S. – at least one in five using the International Monetary Fund (IMF) (24%) or Financial Action Task Force (FATF) (21%) as a source.

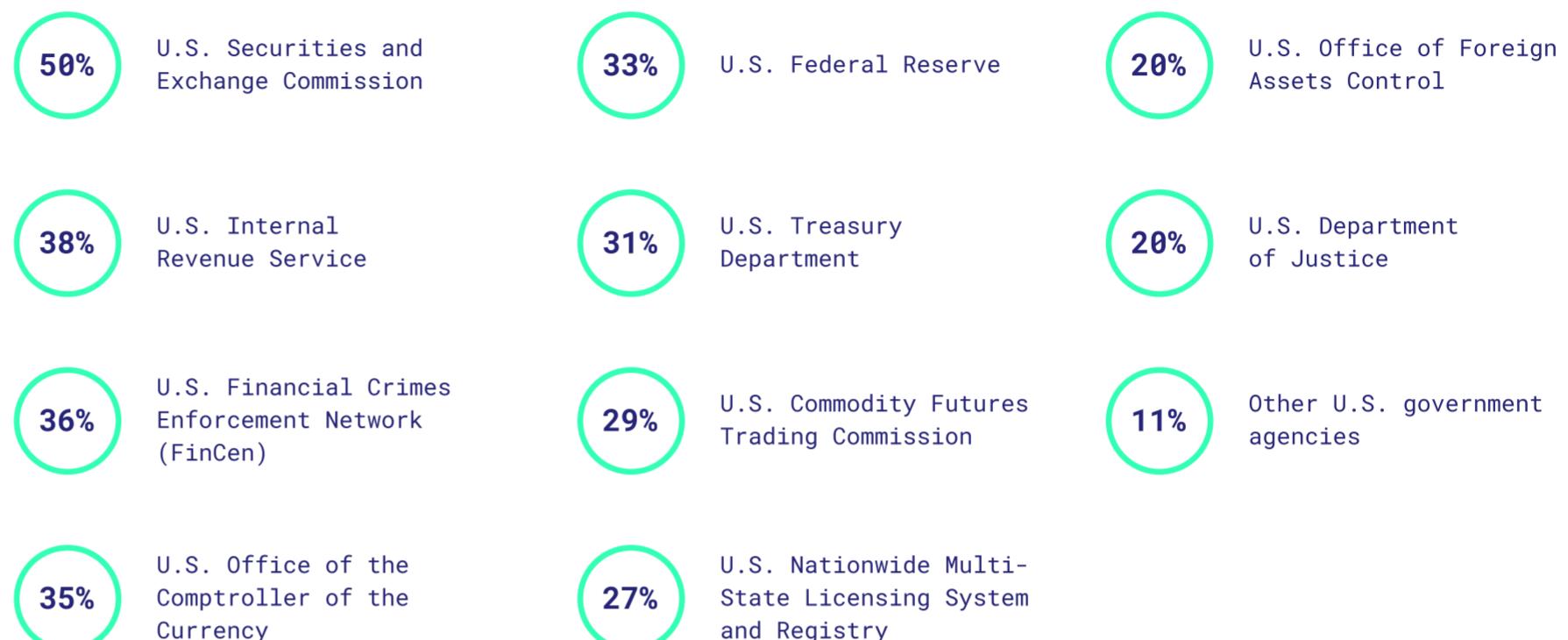
COMMON TYPES OF INFORMATION COMPLIANCE INFLUENCERS RESEARCH



Situational Awareness: Researching Crypto Regulations and Compliance

The specific sources for information when researching cryptocurrency policy, regulations and compliance companies use are wide and varied within the U.S. and outside the U.S.:

U.S. SOURCES



NON-U.S. SOURCES



42%

of crypto compliance influencers reports it's very/somewhat difficult for their company to find the information needed when researching crypto regulations and compliance

In addition to using a wide range of information sources, 80% of companies research cryptocurrency policies and regulations at least once a week with 23% researching multiple times a day and 18% resesearching once a day. Companies use a wide variety of tools to help supplement their cryptocurrency policies and regulations efforts with paid research reports (46%), paid research platforms (46%) and paid consultants/advisors (45%) being the most commonly used tools followed by manual research by employees (38%), news sites/blogs (38%), newsletters /content subscriptions (36%) or free alerts from search engines (33%). Paid external lawyers (28%) and community forums (27%) are the least common tools used.

Even with all of this time and effort devoted to researching, more than two in five (42%) crypto compliance influencers report it's very/somewhat difficult for their company to find the information needed when researching crypto regulations and compliance.

Managing Regulation and Compliance

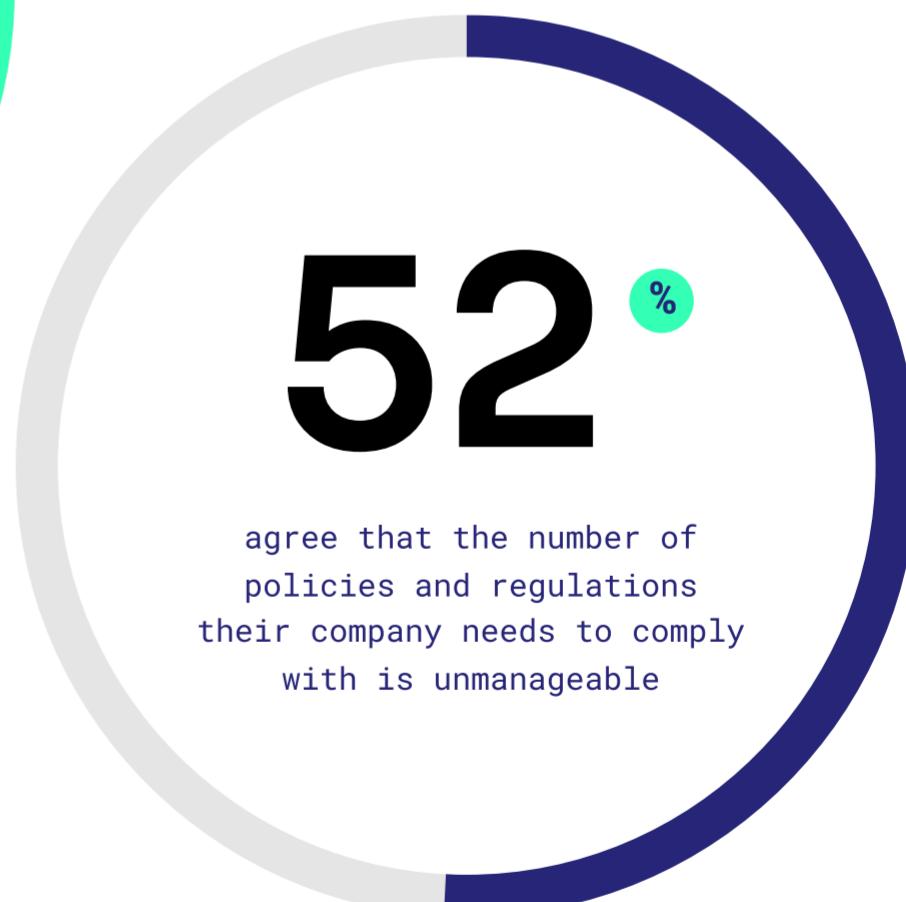
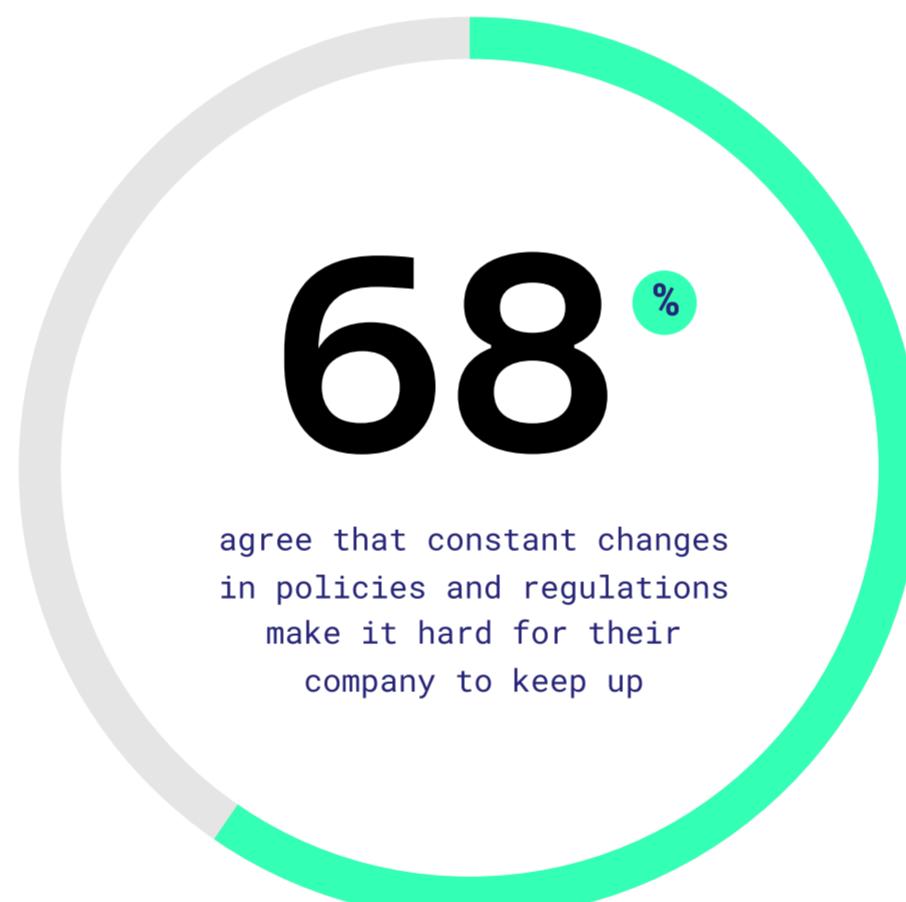
While the majority agree that adhering to regulations is the cost of doing business, compliance influencers are concerned their company will be found non-compliant. There is a widespread lack of confidence that their companies are doing all they need to do to satisfy regulations and compliance.

Although 80% of cryptocurrency compliance influencers agree that adhering to regulations is the cost of doing business, almost half (46%) agree that their company is not completely confident they are doing what they need to satisfy regulations and compliance. In fact, about three in four (77%) report their company is very/somewhat concerned about being found non-compliant with policies, laws or regulations and more than six in ten (62%) agree the dynamic nature of regulations often makes them question the status of their company's compliance.

It seems that keeping up with the churn and breadth of the regulatory and compliance environment are specific issues on the minds of cryptocurrency compliance influencers. More than two thirds (68%) agree that constant changes in policies and regulations make it hard for their company to keep up and more than half (52%) agree that the number of policies and regulations their company needs to comply with is unmanageable.

54%

agree that uncertainty in the regulatory and compliance environment is causing their company to miss opportunities



Geographic and Jurisdictional Challenges of Compliance

Companies are challenged by keeping track of regulation and compliance across different geographic jurisdictions and levels of government.

Additionally, regulatory reporting/auditing standards and consumer protection are the two most common business processes that companies have to balance with cryptocurrency policies, laws or regulations.

The challenge of managing and tracking regulations and compliance is complicated by the need to monitor and manage across geographic jurisdictions as well as different levels of government. Specifically, strong majorities of cryptocurrency influencers agree it's difficult to manage regulations and compliance across different geographic jurisdictions (70%) or it's difficult to track regulations and compliance across different levels of government (67%). Going deeper, the majority report that it is difficult to manage the cryptocurrency regulations and compliance issues at the levels of international agencies (59%), U.S. federal government (54%) and U.S. state government (53%) while almost half report that it's difficult to manage the cryptocurrency regulations and compliance issues at the non-U.S. national government (47%) or U.S. local government (45%) levels.

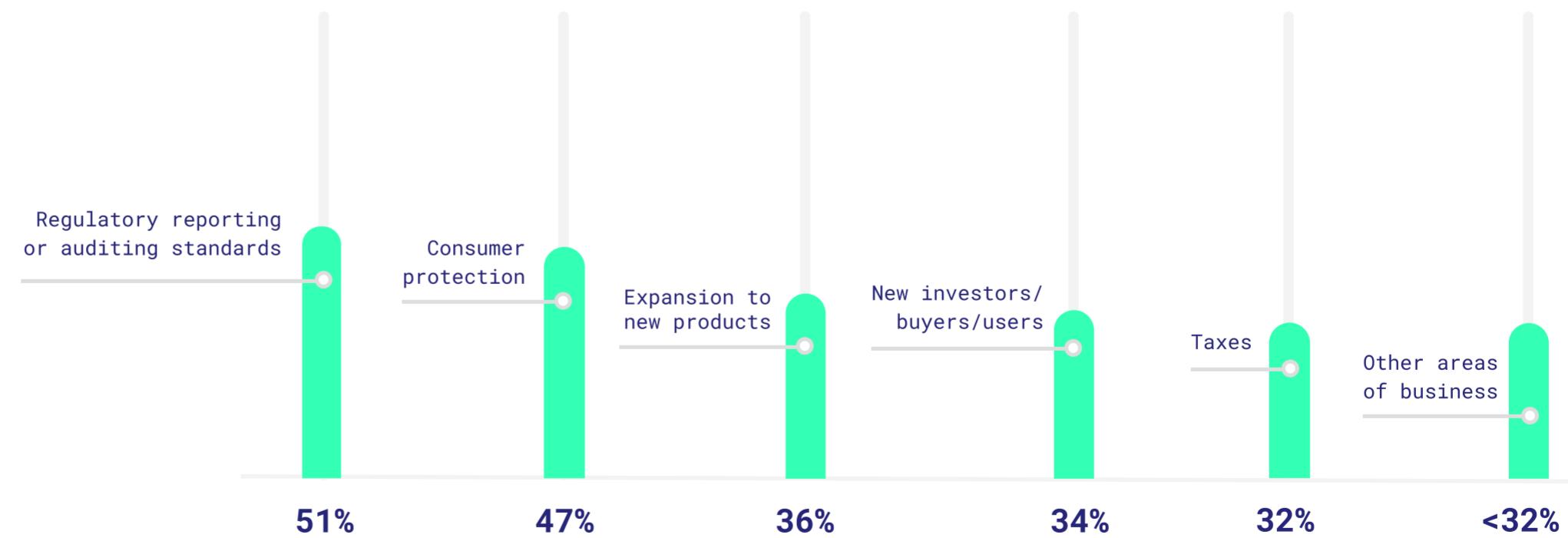
70[%]

of cryptocurrency influencers agree it's difficult to manage regulations and compliance across different levels of government

Moving on to specific impacts on business operations, about half indicate that regulatory reporting or auditing standards (51%) or consumer protection (47%) are the most difficult areas of their business processes to balance with cryptocurrency policies, laws or regulations. While at least a quarter indicate expansion to new markets (36%), new investors/buyers/users (34%), taxes (32%), product features (31%), marketing or advertising (28%), the release of new products/services (26%) and disclosure (25%) are the most difficult areas of their business processes to balance with cryptocurrency policies, laws or regulations. Half (50%) of crypto compliance influencers report that protecting their business from schemes/scams is a challenge their company faces when adhering to crypto policies, regulations and compliance requirements and relatively fewer report that maintaining compliance/legalities (36%), understanding and implementing policy and regulations (33%), finding and tracking policy and regulations (30%), understanding jurisdictional and cross-border issues (26%) and understanding advertising standards (18%) are challenges.

Additionally, 69% report consumer-focused challenges consisting of protecting customer personal identification information, digital identity and user privacy (40%), protecting customers from cybercrime/hacking (32%) or protecting customers from account takeovers (ATOs) and fraud (32%).

REPORTS OF MOST DIFFICULT AREAS OF BUSINESS PROCESSES TO BALANCE WITH CRYPTOCURRENCY POLICIES



Costs of Compliance

AN AVERAGE OF

294

employees are involved to address cryptocurrency regulatory and compliance issues at their company

AN AVERAGE OF

62

hours each week across all employees in the company are used to address cryptocurrency regulatory and compliance issues

The majority of cryptocurrency compliance influencers find that there are meaningful costs of time and effort from the company to be compliant with cryptocurrency policies, regulations and compliance requirements. Managing compliance diverts resources from product-related or expansion-related time and effort instead.

Even with all the employees and hours currently devoted to addressing cryptocurrency regulatory and compliance issues, a little over a third agree that their company cannot afford what it needs to be compliant.

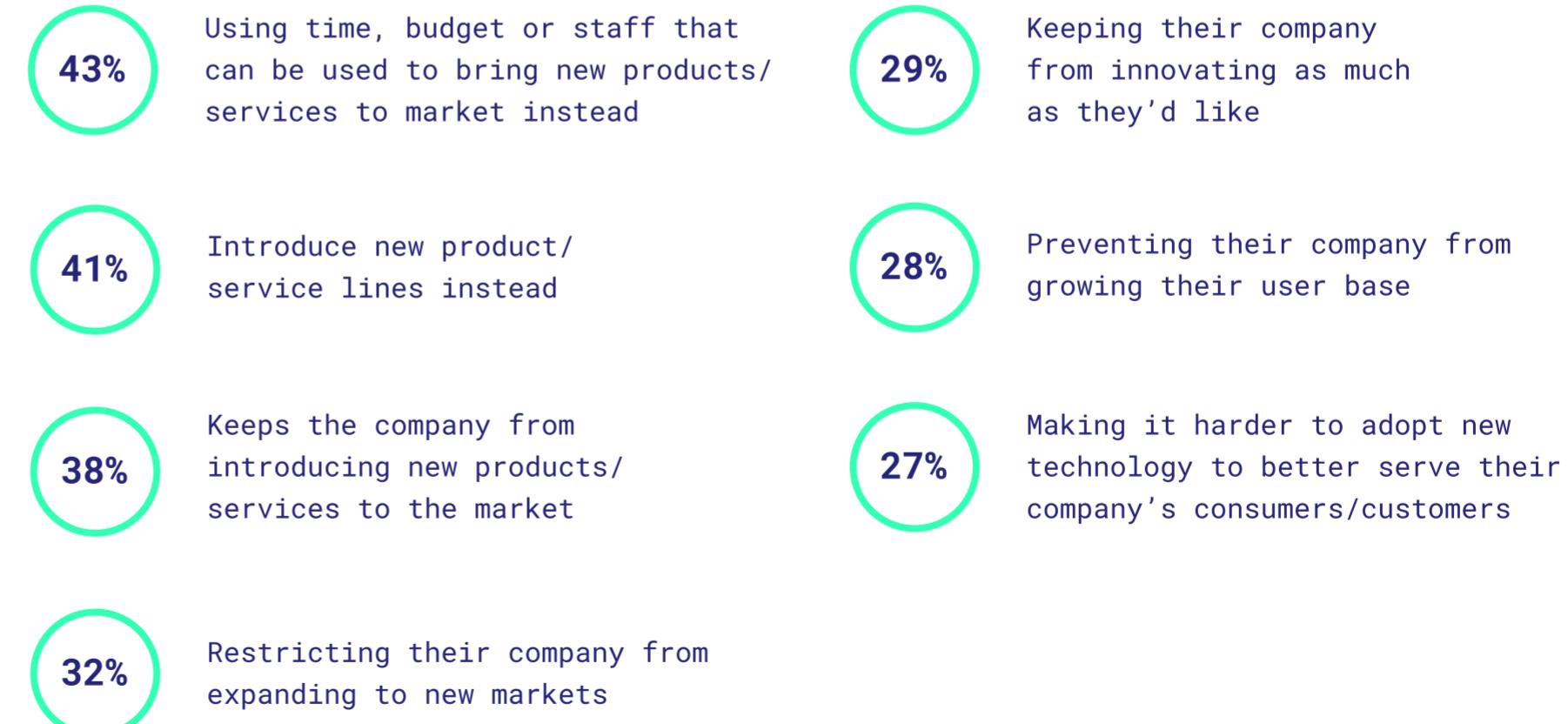
There is a meaningful investment of human time and effort to be compliant with cryptocurrency policies, regulations and compliance requirements considering more than half of cryptocurrency compliance influencers report costs to their company in time and effort updating operations and/or marketing communications to remain compliant (57%), employees dedicated to regulatory research and/or compliance management (55%) and time and effort to find/track regulations/legislation (51%). Specifically, an average of 294 employees are involved to address cryptocurrency regulatory and compliance issues at their company and an average of 62 hours each week across all employees in the company are used to address cryptocurrency regulatory and compliance issues.

Even with all this investment in cash, time and human capital, a little over a third (36%) agree that their company cannot afford what it needs to be compliant.

In addition to money and resources to address cryptocurrency regulatory and compliance issues, there are definite opportunity costs that hinder companies from striving toward their leadership or expansion goals.

With that in mind, a solution that makes companies more efficient about adhering to cryptocurrency policy, regulations and compliance requirements can help cryptocurrency companies make progress towards their leadership or growth objectives.

ADHERING TO CRYPTOCURRENCY POLICY, REGULATIONS AND COMPLIANCE REQUIREMENTS IMPACTS THE BUSINESS BY:



Future Crypto Expansion

The balance between keeping track of regulation and compliance across different geographic jurisdictions and levels of government will be an issue companies in the cryptocurrency space will need to be mindful of as they continue with growth and expansion plans.

The balance between keeping track of regulation and compliance across different geographic jurisdictions and levels of government will be an issue companies in the cryptocurrency space will need to be mindful of as they continue with growth and expansion plans.

93% report their company is prepared to enter new markets with cryptocurrency in the next 24 months, the majority of cryptocurrency compliance influencers report their company is prepared to:

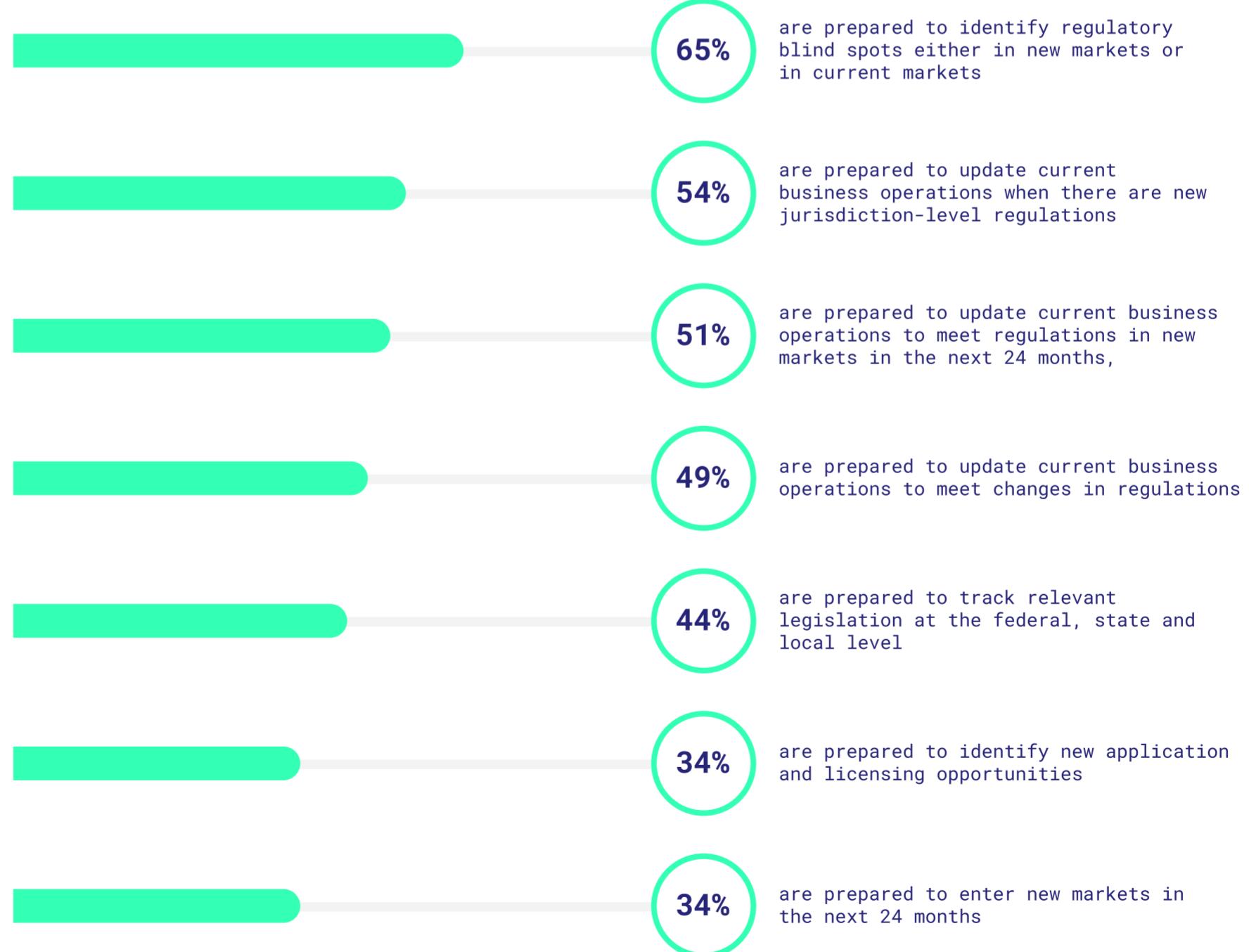
- Identify regulatory blind spots** either in new markets or in current markets
- Update current business operations** when there are new jurisdiction-level regulations
- Update current business operations** to meet regulations in new markets in the next 24 months

Less than half are prepared to:

- Update current business operations** to meet changes in regulations
- Track relevant legislation** at the federal, state and local level
- Identify new application and licensing opportunities**
- Enter new markets** in the next 24 months.

90%
cryptocurrency companies are planning to enter new markets and/or expand existing ones. In light of these growth plans, active investigations of regulatory and legislative actions are being undertaken

OF COMPANIES PREPARED TO ENTER NEW MARKETS WITH CRYPTOCURRENCY IN THE NEXT 24 MONTHS:



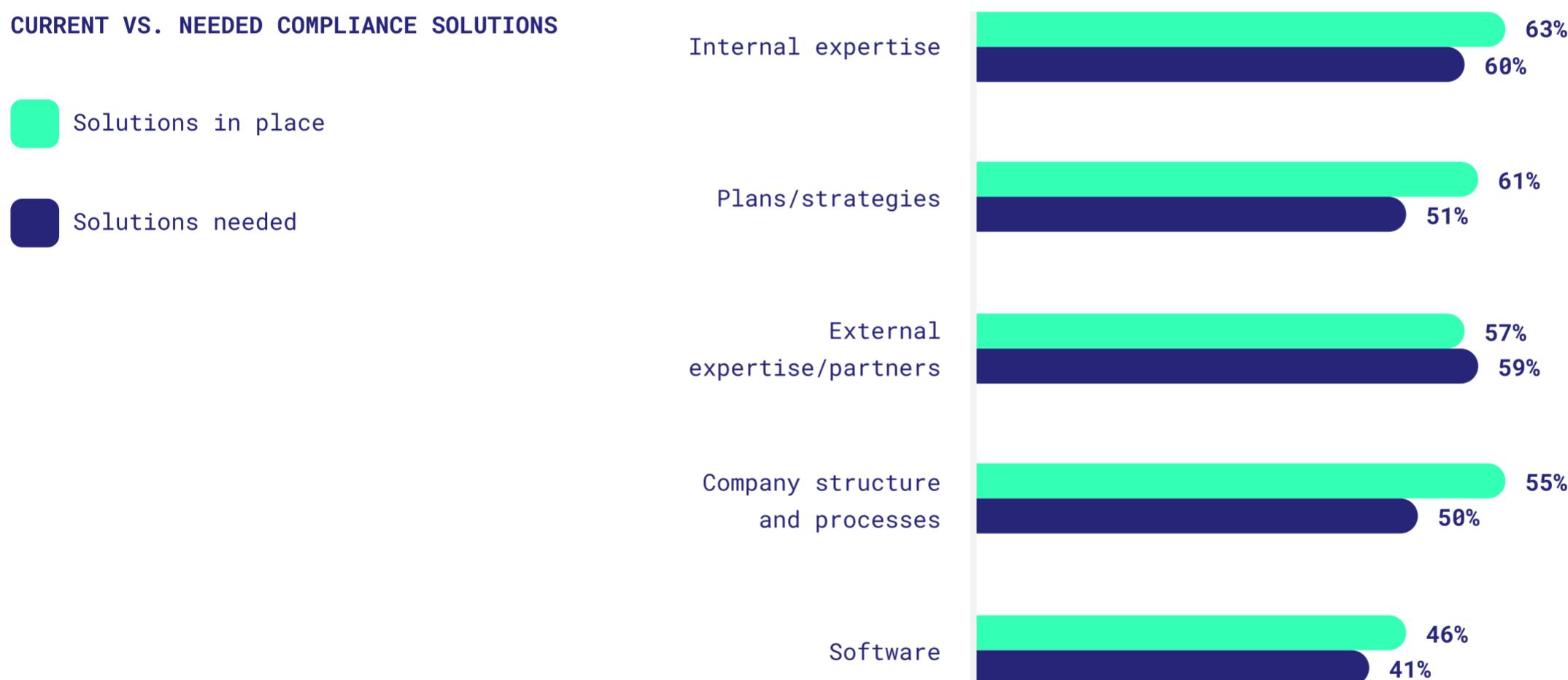
Crypto Policy, Regulation and Compliance Solutions

Companies have taken steps to address cryptocurrency regulatory or compliance solutions, but many also indicate that they still need cryptocurrency regulatory or compliance solutions.

59% say they need external expertise/partners and 41% need software. Real-time alerts and notifications and features that aggregate policy and regulatory data from all U.S. agencies in one centralized platform are common essential features for solutions.

Although majorities are using specific solutions to address cryptocurrency policies, regulations and compliance (including internal expertise (63%), plans/strategies (61%), external expertise/partners (57%), company structure and processes (55%) or software (46%)), many cryptocurrency compliance influencers report their company needs solutions to cryptocurrency policies, regulations and compliance (including internal expertise (60%), external expertise/partners (59%), plans/strategies (51%), company structure and processes (50%) and software (41%). This may mean that the solutions the companies are aware of are not necessarily up to par with what they need to feel comfortable they are being compliant.

CURRENT VS. NEEDED COMPLIANCE SOLUTIONS



Method Statement

The research was conducted online in the U.S. by The Harris Poll on behalf of Fyllo among 200 cryptocurrency compliance influencers who are U.S. adults age 18+, employed full-time in a company whose primary business is in cryptocurrency OR financial services and either offering or investing in offering cryptocurrency solutions in the future; work in Compliance/Control and policy, Legal (excluding compliance), Marketing/Advertising/ Evangelist, Information technology, Regulatory affairs, Business Development/Sales, Financial investments, Corporate strategy/expansion, Cryptocurrency exchange operations, Market risk/Risk research, Crypto/NFT investment or Blockchain and crypto tax and a primary decision-maker or one of several people with shared decision-maker responsibility at their company regarding cryptocurrency regulation and compliance. The 200 cryptocurrency compliance influencers consist of 100 employed in a cryptocurrency company and 100 employed in a financial services and either offering or investing in offering cryptocurrency solutions in the future. The survey was conducted on March 2-11, 2022.

Raw data were not weighted and are therefore only representative of the individuals who completed the survey.

Respondents for this survey were selected from among those who have agreed to participate in our surveys. The sampling precision of Harris online polls is measured by using a Bayesian credible interval. For this study, the total sample data is accurate to within + 6.9 percentage points using a 95% confidence level. This credible interval will be wider among subsets of the surveyed population of interest.

All sample surveys and polls, whether or not they use probability sampling, are subject to other multiple sources of error which are most often not possible to quantify or estimate, including, but not limited to coverage error, error associated with nonresponse, error associated with question-wording and response options and post-survey weighting and adjustments.

