



AN OPEN LETTER TO THE DIGITAL ASSETS INDUSTRY FROM THE MEMBERS OF THE GLOBAL DCA

From May 7th through November 11th - a span of roughly 158 days - we have watched with dismay and horror as firms, once thought of as digital asset pioneers and leaders, have descended into catastrophic collapse. Luna, BlockFi, Celsius, Voyager, Three Arrows, FTX.

In their wake, millions of customers are left with worthless claims. Many have had their savings wiped out. Still viable businesses are left teetering. More layoffs are announced daily. Those of us still standing, who believe in the potential of digital assets and have been playing by the rules, are angry at the recklessness, the ignorance and the greed that led to these collapses. No doubt all of us in the industry are processing these events and are devastated.

THE QUESTION IS WHAT WE AS AN INDUSTRY CAN DO ABOUT IT?

The Global DCA believes that this dark moment presents an enormous opportunity for firms to come together and agree on a certain set of fundamental core principles. Principles that establish business practices that at their core seek to avoid, or at least mitigate, the occurrence of business failures that impact customers and the financial market at large.

NOW IS THE TIME TO ACT

The Global DCA calls on its members, industry leaders, industry groups, government and agency stakeholders, audit, legal and compliance firms, and all interested parties to come together and set forth basic core principles that members of the industry must comply with.



Given the centralized nature and visible causes of recent firm collapses, we propose to focus on core principles mainly relevant to centralized finance (CeFi) digital asset enterprises.

- **PROTECTION OF CUSTOMER ASSETS AND FULL DISCLOSURE:** Digital asset intermediaries must publicly disclose whether customer assets are segregated from the funds of their own proprietary businesses, where assets are held and how they are invested or leveraged, along with associated risks, so customers and counterparties can evaluate these conditions and make their own decisions. Plain disclosure about the use of customer funds must be included in terms and conditions or customer agreements. Transactions with affiliates must be conducted on standard commercial terms and conditions and must be disclosed to the public fully and timely. Disclosure obligations must be fit to customer type and sophistication.
- **STRONG GOVERNANCE AND SYSTEM OF CHECKS AND BALANCES:** Key functions, especially ones that involve the handling of customer funds, must be designed so that no one person has ultimate authority or can unilaterally transfer customer funds. Independent audit should attest whether controls are sufficient. C-Suite executives must answer to a Board of Directors and be under heavy obligations to ensure that they are satisfactorily overseeing these activities and following established policies and internal controls.
- **LIQUIDITY RESERVES:** Sufficient liquidity and liquid reserves should be maintained. Firms must disclose whether proprietary reserves are put aside as a buffer to cover losses of customer funds.

- **ENTERPRISE RISK MANAGEMENT AND STRESS TESTING:** Firms must deploy sophisticated risk modeling techniques to stress test their financial wherewithal in the case of volatile market conditions, lack of liquidity and a once in a lifetime catastrophic event. Basic fundamental financial risk management procedures is the only way to ensure that a business can survive difficult economic conditions and stressed liquidity.
- **PROPER BOOKS AND RECORDS:** Firms must create and maintain financial books and records so that audit firms or regulators, if applicable, may conduct effective audits and examinations.
- **INDEPENDENT AUDIT:** Above financial and compliance obligations must be subject to regulatory and financial audits. Audit and certification standards must be established as a way to demonstrate that firms are in compliance with the core principles.

These core principles will set forth clear objectives and leave the method of compliance to each individual participant.

Our industry must be honest with itself: public trust in CeFi digital asset businesses is in tatters. Restoration of integrity is critical for the survival of the industry. The only way this will be done is through action and this needs to be done immediately.

The GDCA is calling on industry leaders, other industry associations, regulators, audit and legal firms and systemically important businesses come together to one table and discuss these core principles that we believe are essential to the survival of this industry.

WE CALL ON YOU TO STEP FORWARD AND JOIN THIS EFFORT!