



Bitcoin on the Balance Sheet: What Public Company Boards Need To Know

- Companies planning to hold cryptocurrency on their balance sheets should formulate clear policies regarding these assets and ensure that appropriate governance mechanisms and controls are in place.
- Boards weighing whether to hold crypto treasury assets will need to anticipate the reporting issues that will rise, and how the market and various stakeholders may react.
- Because regulators are just formulating their responses to crypto assets, it is essential to monitor their actions in this area closely.

As digital assets continue to capture headlines and market attention — in part because of the surging number of public companies dedicated exclusively to holding cryptocurrency — a growing number of public operating companies are weighing whether to hold bitcoin, ether or other cryptocurrency on their balance sheets.

While the allure of innovation, potential returns and marketing cachet is real, the decision to hold crypto assets comes with distinct risks and complexities, especially for operating businesses outside the crypto sector. This article explores the key considerations for boards of directors in the U.S. and U.K., offering practical guidance and a forward-looking perspective.

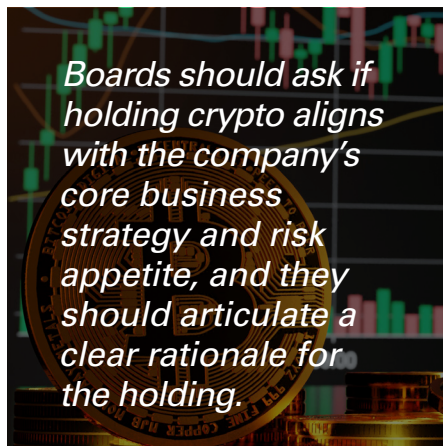
Why Hold Crypto? The Board's Strategic Lens

The stated rationale for holding cryptocurrency varies. Some companies see it as a hedge against inflation

or currency risk, others as a means to signal technological leadership or appeal to younger consumers. There is also the potential for outsized financial returns. But boards considering this move must ask themselves some questions and keep a few guiding principles in mind.

Three Steps To Avoid Problems With Crypto Holdings

1. **Define the purpose and policy.** Boards should ask if holding crypto aligns with the company's core business strategy and risk appetite. They should articulate a clear rationale for holding crypto assets, documented in a new formal policy or in an updated treasury policy or investment plan. Is the goal to diversify treasury assets, facilitate customer payments or simply to serve as a marketing tool? The policy should address permissible types of crypto assets, limits on exposure (*e.g.*, as a percentage of liquid assets), and the process for



acquisition, custody and disposal. Importantly, boards should consider whether they can afford to lose the entire value of the crypto asset, which is a real-world possibility for any asset, but may be of particular interest to shareholders and other interested parties, given crypto's volatility.

2. **Establish robust custody, governance and controls.**

Crypto assets are highly volatile and subject to heightened operational risks, including theft, hacking and loss of access. Boards must ensure that internal controls are fit for purpose. This includes segregation of duties, secure custody arrangements (whether self-custody or via a reputable third party) and regular board-level reporting. Consideration should also be given to whether crypto assets are held on- or off-chain (*i.e.*, whether transactions are recorded on the main blockchain or not), or in a cold wallet, balancing the frequency of use against the risk of hacking or theft. The transparency of blockchain transactions means that company activity may become public, so directors should anticipate and plan for scrutiny.

3. **Anticipate disclosure requirements and prepare for stakeholder engagement.**

Public companies must consider how crypto holdings will be reported in financial statements and public filings. This includes fair value measurement, disclosure of risk factors and the impact on earnings. Boards should also be

prepared to address questions from investors, analysts and the media about the rationale, risks and environmental impact of crypto holdings.

Considerations for US Boards

In the U.S., the legal framework for corporate crypto holdings is slowly developing, particularly in light of the rise of dedicated public cryptocurrency treasury companies, but it remains unsettled. Key points include:

Fiduciary duties and board oversight.

Directors must act in the best interests of the company and its shareholders, exercising care, skill and diligence. Given the volatility and regulatory uncertainty of crypto, boards should ensure that any decision to hold digital assets is well-documented, informed and consistent with the company's overall risk profile.

Disclosure and reporting. The Securities and Exchange Commission expects transparent disclosure of material risks and exposures. Crypto asset holdings may trigger additional risk factor disclosures, and boards should consider whether existing internal controls over financial reporting are sufficient to address the special risks of digital assets.

Custody and security. The choice between self-custody and third-party custody is critical. Each option carries distinct risks — loss of private keys, hacking or counterparty risk. Boards should require a thorough assessment of custody solutions, including insurance coverage and contingency planning.

Environmental and social considerations. Bitcoin mining's energy consumption is a growing concern. Companies with ESG commitments must consider whether holding crypto is consistent with their public stance on sustainability.

Considerations for UK Boards

The legal and regulatory framework in the U.K. is similarly in flux, but several principles are clear.

Directors' duties under the Companies Act 2006. U.K. directors must promote the success of the company, exercise independent judgment and avoid conflicts of interest. The high-risk, speculative nature of crypto means that directors should be able to demonstrate a reasoned, well-informed decision-making process.

Financial reporting and audit. Crypto assets are not considered cash or cash equivalents under International Financial Reporting Standards. Boards must ensure that accounting treatment is appropriate and that auditors are comfortable with valuations and the existence of the assets.

Regulatory scrutiny. The Financial Conduct Authority (FCA) is in the process of developing new rules for crypto assets. While holding crypto on the balance sheet is not prohibited, boards should anticipate questions from regulators and be prepared to justify their approach to risk management and disclosure. Consideration also needs to be given to a company's activity involving crypto assets and whether any licenses or authorizations are needed.

Taxation. Questions remain about the treatment of crypto assets by HM Revenue and Customs in the U.K., so companies must consider the tax implications of holding crypto assets on balance sheet and using them for payments or trading activity.

Reputational and stakeholder risks. Sensitivities regarding ESG issues and corporate reputation should be at the forefront of directors' minds. Boards should consider the potential for negative publicity or stakeholder backlash, especially if crypto holdings are perceived as speculative or inconsistent with stated values, or suffer a significant loss of value.

Forward-Looking: What Boards Should Watch For

Unfolding regulation. Both U.S. and U.K. regulators are actively considering new rules for digital assets. Boards should monitor developments and be prepared to adapt policies and disclosures as the legal landscape changes.

Market and technology shifts. The crypto ecosystem is rapidly evolving. Different types of digital assets (such as stablecoins or tokenized securities) may offer different risk profiles. Boards should regularly review their approach in light of market and technological developments.

Stakeholder expectations. Investor and public attitudes toward crypto are dynamic. Boards should engage proactively with stakeholders to understand their perspectives and to communicate the company's rationale and risk management approach.

Actionable Takeaways for Directors

- **Ask the hard questions:** Why do we want to hold crypto? What are the risks and rewards? How does this fit with our strategy and values?
- **Set clear limits and controls:** Define exposure limits, custody arrangements and reporting protocols.
- **Stay informed and agile:** Monitor regulatory, market and technological developments, and be ready to adjust course as needed.

Whether to hold cryptocurrency on the balance sheet is a decision to be made with care. For many operating companies, the risks and complexities may outweigh the potential benefits unless there is a clear strategic rationale and robust governance in place. Directors of companies that do wish to take on cryptocurrency assets into their treasuries are well-advised to approach this issue with rigor, transparency and foresight.

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